

▶ Market Guide

THIS ISSUE

Post IPO Compliance Requirements: Are SMEs Adequately Prepared to Navigate Them

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." – George Soros

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Post IPO Compliance Requirements: Are SMEs Adequately Prepared to Navigate Them

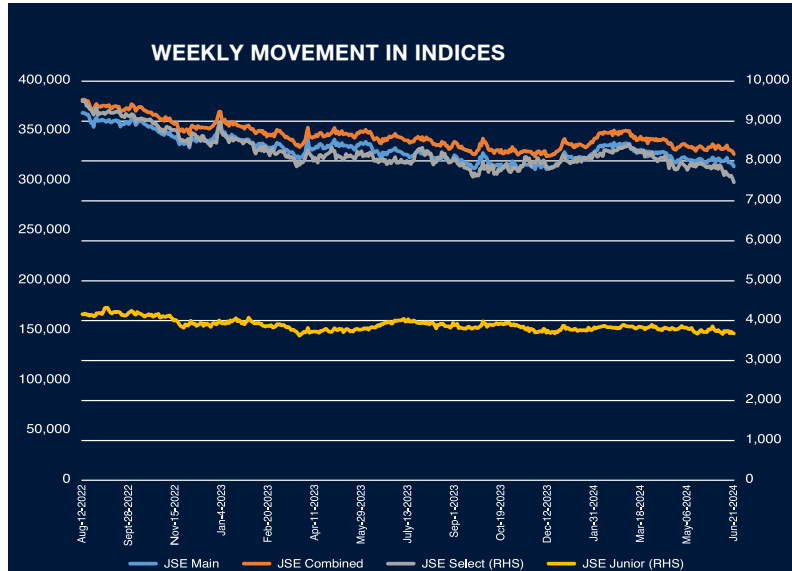
Recent trading suspensions of companies on the Junior Market of the Jamaica Stock Exchange (JSE) have highlighted the critical issue of regulatory compliance that is often not top of mind for owners as they go through the listing process. Driven primarily by non-compliance related to the submission of financials, they underscore the challenges that some companies may face in complying with the requirements and regulations to remain listed on the JSE. While there are many benefits, listing on the JSE comes with increased regulatory scrutiny and requirements. Remaining in good standing to remain listed, entails meeting financial, governance, legal, and shareholder communication standards, which can be costly, especially for smaller companies. This week, we explore the cost of compliance, and the difficulties Small and Midsize Enterprises (SMEs) may face in complying with JSE and other regulations post-listing.

While a successful Initial Public Offering (IPO) brings access to capital and increased visibility, among other benefits, companies must also meet several compliance requirements before listing and then remain compliant thereafter, to stay listed. For the JSE, a company seeking initial admission to the stock exchange must comply with the following requirements:

(i) have a mentor acting as a compliance adviser before and during its time as a Junior Market Company; (ii) have a skilled and experienced Board of Directors, including at least two independent non-executive directors; (iii) appoint auditors, brokers, and an attorney; (iv) not be associated with any company listed on the main market; and (v) be incorporated as a public limited company in Jamaica or CARICOM. There are also post-listing compliance requirements to

remain publicly listed. These requirements are outlined in the Junior Market Rule Book – Rule 505 Ongoing Requirements. Generally, companies must file their audited financials in a timely manner and maintain good corporate governance and legal compliance. Additionally, companies must keep a clear line of strong communication with regulatory bodies and their investors by announcing directorial and senior management changes as well as trade disclosures. The costs for requirements add up quickly as companies pay director salaries, auditing fees, and legal & professional fees associated with meeting these new requirements. Furthermore, companies may even have to increase their employee count in order to not only meet the requirements but to do so consistently and in a timely manner. Failure to comply may result in penalties like trading suspensions or in more extreme cases, delisting. To properly meet regulatory requirements, companies must make allowances in their budgets and be adequately staffed to effectively comply with post-listing governance and regulatory requirements. However, adequate consideration and preparation for post-IPO listing compliance requirements may often be overlooked by SMEs as they plan for listing and focus on executing their growth strategies post-listing.

In the context of increasing regulatory oversight and complexity both globally and locally, companies should monitor their regulatory environment and plan for annual increases. This is particularly important as they grow and their businesses become larger and more complex, alongside the rising cost of professional services due to increased demand. This can be difficult for smaller firms to sustain, especially



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	325,778.14	-2.65%	-3.95%
Main Market Index	313,276.45	-2.73%	-3.81%
Select Index	7,433.79	-2.84%	-8.45%
Junior Market Index	3,653.40	-1.73%	-5.07%

WINNERS & LOSERS FOR THE WEEK ENDED JUNE 21, 2024

	\$ Change	% Change
ICREATE	+\$0.19	+46.34
ISP	\$3.44	+16.57%
EDUFOCAL	-\$0.18	-22.22%
SAGICORSELECT	-\$0.09	-18.00%

MARKET OVERVIEW

Last week's overall market activity resulted from trading in 124 stocks, of which 39 advanced, 73 declined, and 12 traded firm. Market volume amounted to 87.54Mn units valued at over \$668Mn. This reflected a 37.7% decrease in volume and a 51.2% increase in value relative to the corresponding week ending June 23, 2023. Sagicor Select Funds Limited - Financial, Omni Industries Limited, and TransJamaica Highway Limited were the week-over-week (WoW) volume leaders with 10.99Mn units (12.4%), 9.07Mn units (10.2%), and 8.822Mn units (9.9%). With decliners far outnumbering advancers, all 9 market indices gave up ground. The JSE Cross-Listed (5.83%) and the Manufacturing & Distribution (M&D) (-3.89%) Indices showed the greatest depreciation. Massy Holdings Ltd. (-9.75%), the heaviest weighted stock in the JSE Cross Listed Index, and to a lesser extent, MPC Caribbean Clean Energy Ltd (-3.10%) were the largest contributors to the falloff in the index. AS Bryden and Sons Holdings Limited (+1.32%) and Jamaica Producers Group (-2.75%) led the falloff in the M&D Index. There was no company-specific news for the named companies to support the price movements last week.

With just one more week remaining in the 2nd quarter of 2024 (Q2 2024), all 9 indices are down relative to the end of the first quarter (Q1 2024). Year to date, the main decliners are the JSE USD Index (-11.88%) which comprises securities listed on the USD equities markets and the JSE Select Index (-9.19%), which measures the most liquid shares.

with compliance officer job offers projected to increase by 18.0% by 2030¹. Auditing costs are also rising, likely driven by a general shortage of qualified accountants². A similar uptrend in audit fees is evident in companies listed on the JSE. SMEs that have spent five full years on the Junior Market of the JSE have seen their audit fees more than double during that period. As an alternative to building out their compliance teams, SMEs may turn to third-party consulting but may face similar issues as regulations become more complex. Moreover, increased compliance costs can stem from training costs to educate existing employees and higher legal fees. The latter can be driven by company expansion, whether inorganically or organically. This growth often necessitates legal support in contract negotiations, integration planning, a stronger corporate governance structure, and employment-related legal matters. These factors can make meeting post-listing requirements more costly. Additionally, regulatory and compliance matters continue to grow in complexity due to the introduction of the Environmental Social & Governance (ESG) criteria³, cybersecurity, and data privacy acts⁴ which are expected to add to the compliance load and costs over time.

Locally, the expansion of SMEs into new business lines significantly increases the complexity and time required for audits and is further exacerbated by region-specific auditing issues. Newly listed companies on the JSE Junior Market often use their IPO proceeds to expand into new, similar, or adjacent business lines, increasing business complexity and compliance costs. For instance, in 2023, FESCO's audit and professional and legal fees grew by 65.7% and 111.2% respectively, relative to 2022. With the company entering the LPG⁵ industry, opening three new locations in 2023 alone,

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and increasing its staff count from forty-five (45) to seventy-two (72), it opened up the door for increased auditing costs and usage rate of its legal and professional contractors⁶. Additionally, a shortage of qualified accountants could cause delays in financial disclosures. Some audit firms facing resource constraints may favour deploying staff to larger clients with healthier budgets. However, this may exacerbate the duration of the auditing process for smaller firms, leading them to be more susceptible to delays⁷. Such delays can lead to trading suspensions and higher reputational risks.

Amid greater focus on investor and consumer protection and increased regulatory oversight, the recent trading suspensions on the Junior Market of the JSE highlight the critical issue of regulatory compliance, particularly for SMEs. While listing provides access to capital and increased visibility, it also subjects companies to stringent regulatory requirements and greater scrutiny. This includes adherence to financial, governance, legal, and shareholder communication standards, which can challenge smaller companies unprepared for the new dispensation that is life after listing. The increasing complexity of regulatory frameworks, coupled with a shortage of qualified resources, exacerbates the compliance challenges for SMEs, potentially

making compliance difficult, especially for the unprepared. It is, therefore, crucial for SMEs to proactively plan, budget, and allocate resources for post-listing compliance to successfully navigate the complexities of regulatory requirements. This will allow them to safeguard their listing status on the JSE, protect their brand image and value, and help to build investor confidence in their companies, and the financial markets.

1 Bureau of Labour Statistics

2 ACCA Global, IFAC & Bloomberg

3 Entities like the JSE and Development Bank of Jamaica (DBJ) in 2022 and 2023 have started initiatives to educate companies on implementing ESG frameworks into companies' structures.

4 Jamaica's Data Protection Act took effect on December 1, 2023.

5 FESCO entered the LPG business in 2023 by acquiring LPG assets from Wilson Beck LPG Limited.

6 FESCO 2023 Annual report

7 Jamaica Observer: "Accountant Shortage?" published on December 20, 2022

Foreign Exchange Market

For the week ending June 21, 2024, the Jamaican dollar depreciated slightly with the USD selling rate moving from J\$154.80 per \$1 on June 14, 2024, to J\$154.85 on June 21, 2024. The Jamaican dollar has been relatively stable over the last couple of weeks. The relatively flat exchange rate reflects resistance by end users to buying the USD above \$158.00 dealers and a steady supply of hard currency from USD earners. Continued stability in the exchange rate would be a positive as it makes exchange rate budgeting easier.

Selling	Close: 14/06/24	Close: 21/06/24	Change
J\$/US\$1	\$156.48	\$156.59	\$0.11
J\$/CDN\$1	\$116.02	\$115.15	(\$0.87)
J\$/GBP£1	\$200.76	\$196.49	(\$4.27)

Global Bond Prices

Emerging Market (EM) bond prices were mixed last week, likely due to the Fed's projection for one rate cut this year despite some softness in the labour market. Investor's sentiment around the likelihood of a rate cut decreased after the Federal Reserve (Fed) released updated economic projections that showed officials pared back their expectations for rate cuts this year, to one from the three seen in March, after stronger-than-expected inflation data in the first months of 2024. According to the CME Fed Watch tool, 10.3% of investors now expect the US Federal Reserve to cut rates to 5.00–5.25 percent in their next meeting (July 31, 2024), down from the 19.29% recorded in the week before the last meeting.

However, all eyes will be on this week's Personal Consumption Expenditures (PCE) inflation data due June 28, 2024, the Fed's preferred inflation metric. Expectations are for headline PCE inflation to dip from 2.7% year over year (YOY) to 2.6%, and core PCE (which excludes food and energy prices) to slide from 2.8% to 2.6%. With the last employment data suggesting that the job market could potentially slow down in the coming weeks, if inflation improves, this would give the Fed more support to cut rates barring any unexpected shift in the global market.

Although job growth accelerated in May, it likely overstated the health of the labour market as jobless claims rose. Labour market momentum is ebbing in tandem with the overall economy following 525 basis points worth of interest rate hikes from the Federal Reserve since 2022 to tame inflation. Loosening labour market conditions has led to inflation pressures subsiding, keeping a rate cut this year on the table at this time. Against that background, expectations are for some upward pressure on claims in the coming weeks as the labour market tightness eases. If realised, this would be a positive signal for Fed officials, who have been looking for more

concrete economic data before enacting the highly anticipated first (and likely only) rate cut this year. Given this, demand for Treasury Bonds rose pushing prices up. Consequently, week-over-week 10-year treasury yields dipped from 4.4% to 4.2% last week.

Emerging markets bond spreads have remained tight with investors holding on to the narrative that a slowdown in the US economy will be modest enough to reinforce a soft landing. Against this background, prices closed higher for some EM government issues, including those from Barbados, Bermuda, and Trinidad and Tobago. However, Jamaica, the Bahamas, and the Dominican Republic bonds closed at lower or varied prices. Of note, primary market activity should remain strong for this year, although borrowing still came at expensive levels for these sovereigns given the still high interest rate environment⁸. Issuers appear to be more focused on reducing the near-term refinancing risks. Of note, Trinidad and Tobago successfully raised US\$750Mn on the international capital market last week, having received offers totalling US\$2.1Bn, an oversubscription of 280% for its new 6.40% 2034 Notes. Additionally, the Dominican Republic is set to issue New Notes to the market, including a Dominican Pesos (DOP)-linked bond due 2036, a green USD-denominated bond due 2036, and the reopening of its 7.05% 2031 bonds, subject to market conditions.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.25	5.86%	BUY
BACR (5.75%) 2026	BBB+/Stable	104.00	3.82%	BUY
BERMUD (3.72%) 2027	A2/Stable	98.50	4.34%	BUY
BERMUD (4.75%) 2029	A2/Stable	99.51	4.88%	BUY
CHTR (4.2%) 2028	Ba2/Stable	98.50	4.64%	BUY
DOMREP (5.5%) 2029	BB/Stable	101.00	5.25%	BUY
DOMREP (8.625%) 2027	BB/Stable	107.50	5.70%	BUY
DOMREP (5.95%) 2027	BB/Stable	103.50	4.49%	BUY
DOMREP (6%) 2033	BB/Stable	101.25	5.81%	BUY
DOMREP (6%) 2028	BB/Stable	103.50	5.03%	BUY
DOMREP (6.88%) 2026	BB/Stable	105.25	3.45%	BUY
GM (5.4%) 2029	Baa2/Stable	103.50	4.65%	BUY
GS (5.798%) 2026	A2/Stable	103.50	4.06%	BUY

8 JP Morgan, EM Sovereign Credit Strategy for 2H24, June 17, 2024

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
GS (3.85%) 2027	A2/Stable	100.00	3.85%	BUY
JAMAN (7.63%) 2025N	BB-/Positive	105.00	2.68%	BUY
NFLX (5.88%) 2028	BBB/Stable	106.75	4.17%	BUY
NRG (3.875%) 2032	BB/Positive	90.75	5.37%	BUY
OPY (5.5%) 2025	Ba3/Stable	102.75	3.23%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	102.50	4.77%	BUY
PRMRPA (10.75%) 2028	B+/Positive	112.25	7.26%	BUY
PYPL (2.85%) 2029	A-/Stable	94.25	4.08%	BUY
SFC (5.3%) 2028	BB-/Positive	99.25	5.52%	BUY
TPHLTT (9%) 2029	Ba3/Stable	108.75	6.94%	BUY
TRAJAM (5.75%) 2036	BB-/Positive	93.75	6.49%	BUY
WBD (4.13%) 2029	BBB-/Stable	96.25	5.00%	BUY
FRICON (7.7%) 2028	B+/NRW	70.75	18.20%	HOLD
BANORT (5.75%) 2031	Baa2/Positive	99.25	5.88%	SELL
CSOLNO (6%) 2027	B+/Stable	88.75	11.11%	SELL
PEMEX (5.35%) 2028	B3/Negative	94.00	7.26%	SELL
NFE (6.5%) 2026	BB-/Stable	95.50	8.76%	SELL
NFE (6.75%) 2025	BB-/Stable	101.25	5.65%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.5	5.77%
	2039	117.3	6.12%
	2045	116.35	6.45%

*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	6.50%	100.35	8.02%
SJPC	2032	8.15%	104.95	7.99%
PBS	2025	8.85%	100.85	6.03%

Money Market

JMD money market liquidity remained moderate last week. As of June 21, 2024, a total of J\$29.55Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). This was J\$6.70Bn more than on June 14th due to increased salaries being paid out.

With interest rates still elevated, demand for money market instruments remains high, evidenced by the oversubscriptions on the recent BOJ auction. The BOJ's 30-day competitive price auction was oversubscribed; bids received totalled J\$44.6Bn relative to the offer size of J\$40.5Bn. The average yield rose to 9.75% relative to 9.70% in the prior week, marking the 2nd yield increase seen in June. This yield; however, is still far below the high-11 percent seen earlier this year (auctions between March 20 and April 19) and could likely be due to the continuous decline in consumer prices, which has placed inflation firmly within the BOJ's target range. The next auction date for the Bank of Jamaica 30-day CD will be held on June 26th. The highest bid rate for full allocation was 10.39%, up from the 9.97% highest bid the prior week.

Of note, inflation results released by STATIN last week for May 2024 saw point-to-point inflation rate (May 2023 – May 2024) falling to 5.2% from the 5.3% recorded in April 2024. This represents the fourth consecutive month of decline in consumer prices since the start of the year. Despite the year-on-year improvement in the annual inflation rate, consumer prices rose 0.5% in May 2024, with the All Jamaica Consumer Price Index (CPI) rising to 134.9 points from 134.2 points in April. The main contributor to this movement was a 1.1% increase in the index for the heaviest weighted division, 'Food and Non-Alcoholic Beverages'. Furthermore, while inflation has fallen, farmers are still grappling with drought conditions. If these conditions persist, it may continue to put upward pressure on food prices, the largest component in the CPI basket. At its last monetary policy meeting in May, the BOJ kept its policy rate at 7.00% as it continues to monitor the pass-through effects of previous adjustments on deposit and loan rates. The next policy decision will be on June 28th when it is expected that BOJ will maintain its policy rate at 7.00% as it observes incoming data to assess the trajectory of inflation along with the strength of any potential risk.

Dates to watch this week

■ International ■ Local

June 2024				
MON	TUE	WED	THUR	FRI
24	25	26	27	28
	PANJAM Dividend Payment Date (J\$0.10 per share) CAD CPI Data (MoM) (YoY) (May)	CAR Dividend Payment Date (J\$0.16 per share) KEY Annual / Extra-Ordinary General Meeting	PPI (STATIN) (May)	GDP (STATIN) (Q1 2024) BIL Annual / Extra-Ordinary General Meeting CAD GDP (MOM) (Apr) GBP GDP (QOQ) (YOY) US Core PCE Price Index (MoM) (YoY) (May)

Recommendations

Ticker	Closing Price (June 24, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR JA	\$9.00	12.4x	13.3x	BUY
CPJ JA	\$8.82	9.0x	13.3x	BUY
FESCO JA	\$3.04	14.8x	15.5x	BUY
GK JA	\$74.22	9.5x	15.9x	BUY
INDIES JA	\$2.64	13.8x	12.4x	BUY
JBG JA	\$33.05	6.9x	13.3x	BUY
HONBUN JA	\$8.26	15.9x	21.1x	BUY
KEX JA	\$10.65	14.6x	16.3x	BUY
LASM JA	\$6.37	11.1x	13.3x	BUY
SEP JA	\$79.87	20.5x	13.3x	BUY
SOS JA	\$1.65	13.8x	15.5x	BUY
SVL JA	\$23.00	23.6x	13.2x	BUY
SALF JA	\$3.70	19.2x	13.3x	SELL

Regional News

Dominican Republic Sees 5% Increase in Remittances

The Central Bank of the Dominican Republic (BCRD) reported that remittances received between January and May 2024 totalled US\$4,382.3Mn, marking a 5.0% increase compared to the same period the previous year. This continues the trend of year-on-year growth in remittance flows observed in 2023. In May alone, US\$887.1Mn in remittances were received, a 0.7% increase over May 2023. These funds from the diaspora significantly impact consumption, investment, and the financing of the most vulnerable sectors in the country. The BCRD attributes the behaviour of remittances largely to the economic performance of the United States, from which 87.3% of formal remittances in May originated, amounting to US\$713.8Mn. Remittances also came through formal channels from other countries, including Spain (US\$39.4Mn, 4.8% of the total), Haiti (1.0%), and Italy (0.7%). Additional countries contributing to remittances included Switzerland, Canada, and Panama.

Looking at the broader external sector, the BCRD expects foreign exchange earnings to grow favourably in 2024, driven by tourism, foreign direct investment (FDI), exports, and remittances. Estimates suggest that remittances and FDI flows will reach approximately US\$10.4Bn and US\$4.5Bn, respectively, by the end of the year. These inflows contribute to the relative stability of the exchange rate, with the national currency depreciating by 1.9% by the end of May 2024 compared to the end of 2023. Furthermore, increased external income flows have helped maintain robust international reserves, which stood at US\$13,937.5Mn at the end of May, covering about 5.0 months of imports and equivalent to 11.3% of GDP, exceeding IMF-recommended thresholds.

Source ~ Dominican Today

Guyana Now the Third-Largest Economy In the English-speaking Caribbean

Within three years of the start of oil production and exports in 2019, Guyana has become the third-largest economy in the English-speaking Caribbean, after Trinidad & Tobago, the largest by a wide margin, and Jamaica. Guyana's 2022 gross domestic product (GDP) of US\$15Bn was just half of Trinidad & Tobago's and 12 per cent less than Jamaica's. The picture is very different when the average income per person in

Guyana is compared with other Caribbean countries. Average incomes in Guyana have gone from US\$6,000 a year before oil exports began to US\$18,000 in 2022, but they remained just about US\$2,000 shy of average incomes in Barbados and Trinidad & Tobago. Average incomes in Jamaica remain at levels comparable to those in Guyana before the oil boom started.

In contrast to the almost three-fold increase in average incomes, Guyana's score in the United Nations Development Programme's Human Development Index improved by just 6% between 2017 and 2022. The Human Development Index incorporates health and educational achievement, together with the purchasing power of average incomes. It will be some time before the surge in incomes in Guyana is reflected in improvements in educational achievement, health services, infrastructure and other developmental indicators of the quality of life in that country. However, with oil production and economic expansions growing at such a rapid pace in the sovereign, this presents significant opportunities for human capital development to ensure an adequate supply-side response to emerging demands, especially in the market for skilled labour and to reduce skill and labour mismatches. This will in turn lead to stable Demographics and improved quality of life for Guyanese residents.

Source ~ Guyana Chronicle

International News

UK Inflation Drops to 2% Target for First Time Since 2021

British inflation returned to its 2% target for the first time in nearly three years in May, but strong underlying price pressures all but rule out a pre-election interest rate cut. While Prime Minister Rishi Sunak welcomed the fall in headline inflation in May, it has likely come too late to turn around his fortunes in British elections on July 4 or to prompt a Bank of England (BoE) rate cut last Thursday. Office for National Statistics data showed services price inflation, which the BoE thinks gives a better picture of medium-term inflation risks, was 5.7%. That was down from 5.9% in April but higher than the 5.5% economists had forecast in a Reuters poll or the 5.3% predicted by the BoE last month.

The drop in annual consumer price inflation from April's 2.3% reading - in line with economists' expectations - took it to its lowest since July 2021 and marks a sharp decline from the 41-year high of 11.1% in October 2022. The fall has been sharper than in the eurozone

or the United States, where consumer price inflation in May was 2.6% and 3.3%, respectively, belying concerns a year ago that British inflation was proving unusually sticky. The BoE has said a return of inflation to its target is not enough on its own for it to start cutting interest rates. "Rate-setters will still need to weigh the fall in headline inflation against signs that domestic price pressures, such as elevated pay growth, are proving slower to come down," Martin Sartorius, principal economist at the Confederation of British Industry, said.

Source ~ Reuters

ECB Holds Rates At Record Highs, Signals Upcoming Cut

Federal Reserve officials, heartened by recent data, are looking for further confirmation that inflation is cooling and for any warning signs from a still-strong labour market as they steer cautiously toward what most expect to be an interest rate cut or two by the end of this year. Outlining a litany of reasons for optimism that inflation is back on track to the U.S. central bank's 2% goal after stalling earlier this year, Fed Governor Adriana Kugler said she believes monetary policy is "sufficiently restrictive" to ease price pressures without causing a significant deterioration in the job market.

The Fed released updated economic projections that showed its officials had pared back their expectations for rate cuts this year, to one from the three seen in March, after stronger-than-expected inflation data in the first months of 2024. Most analysts equate fewer rate cuts with a later start, particularly after Fed Chair Jerome Powell said the first reduction in borrowing costs would be "consequential" because it could reset market expectations. All Fed officials stressed the Fed's commitment to making decisions based on incoming economic data. "I expect interest rates to come down gradually over the next couple of years, reflecting the fact that inflation is coming back to our 2% target and the economy is moving in a very strong sustainable path," New York Fed President John Williams said.

Source ~ Reuters

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