

# ▶ Market Guide

## THIS ISSUE

### Mid-Year Insights: Long-term Investment Opportunities Amid Economic Shifts

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

“Value stocks are about as exciting as watching grass grow, but have you ever noticed just how much your grass grows in a week?” - Christopher Browne

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## Mid-Year Insights: Long-Term Investment Opportunities Amid Economic Shifts

Inflation and interest rates have defied initial expectations, raining on the local stock market's parade in the first half of 2024 (H1); however, investors seeking opportunities to unlock long-term value can still find them in the market in the second half of the year (H2). The slower-than-expected decline in inflation in H1 meant mid-year rate cut projections did not materialize as expected. Against this background, the stock market performance, both primary and secondary, remained weak. Still, the BOJ's recently announced plans to increase market liquidity after its June 28th Monetary Policy Committee meeting offer a glimmer of hope that improving macroeconomic factors like easing inflationary pressures and a path to lower interest rates could spark an H2 stock market recovery. We view the Financial, Manufacturing and Distribution (M&D) and Energy, Industrial and Material (EIM) sectors as opportunities for investors looking for long-term value amidst the evolving economic landscape. That being said, Hurricane Beryl, particularly its impact on St. Elizabeth, Jamaica's breadbasket, is a risk to food prices and the inflation trajectory in the coming months. This could delay the timing of lower market interest rates, however, we still believe there are opportunities in the stock market for patient investors.

Our initial expectations for 2024 included faster declines in inflation, paving the way for mid-year interest rate cuts by the BOJ. However, the BOJ ended H1 maintaining the policy rate at 7% per annum. Despite inflationary pressures abating over the last 3 months, at the start of the second half, interest rates are still elevated

and liquidity constraints depress stock prices across major indices. Although there was an increase (30.7% or 1.12Bn units) in trade volumes<sup>1</sup> on the secondary market, declines in 7 of the 9 JSE stock indices point to a sustained shift in investor sentiment and demand as higher-yielding and less risky assets like money market securities and bonds remain attractive. This shift in demand was also exacerbated by liquidity constraints stemming from monetary policy measures, limiting institutional investor participation in the equities market. As a result, the JSE Combined index fell by 1.96%, with the Main Market index<sup>2</sup> (-2.08%) facing the biggest headwinds amid the underperformance of Main Market financial Sector stocks. The primary market was also subdued with just one IPO. However, it was a slight improvement compared to H1 2023, which had no equity capital raises<sup>3</sup>.

While the overall market declined, the performance across sectors continued to diverge. The Main Market Financial Sector, comprised of some of the largest capitalization stocks, saw significant declines, while the resilient M&D and EIM sectors showed strong price appreciation. While there were a few standouts, the Main Market Financial Sector declined with most of its constituents' share prices falling. Price declines from the two largest financial sector stocks by market capitalisation, Sagicor Group (SJ; -17.17%) and NCB Financial Group (NCBFG; -21.65%) weighed on sector performance. Even as profits for many financial companies rebounded from 2023 lows, investor appetite remained muted. Ultimately,

### WEEKLY MOVEMENT IN INDICES

#### MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	332,512.31	0.00%	-1.96%
Main Market Index	319,256.04	+0.11%	-1.98%
Select Index	7,534.91	+1.03%	-7.21%
Junior Market Index	3,795.79	-1.23%	-1.37%

#### WINNERS & LOSERS FOR THE WEEK ENDED JULY 5, 2024

	\$ Change	% Change
TTECH	+\$0.32	+15.46%
MDS	+\$0.33	+15.00%
JMMBGLUSD8.50	-\$0.19	-15.00%
SRFUSD	-\$0.01	-13.04%

#### MARKET OVERVIEW

Last week's overall market activity resulted from trading in 120 stocks, of which 48 advanced, 62 declined, and 10 traded firm, relative to the week before when 71 stocks advanced. Market volume amounted to 63.71Mn units valued at over J\$166.13Mn reflecting a 62.89% decrease in volume and 84.47% reduction week over week. Edufocal Limited, Wigton Windfarm Limited, and TransJamaican Highway Limited were the volume leaders with 15.27Mn Units (23.94%), 10.39Mn Units (16.28%), and 7.10Mn Units (11.12%).

5 of 9 market indices appreciated relative to 8 indices increasing the week before as the market appeared to lose some steam. The JSE Cross-Listed Index (+1.21%) and JSE Select Index (+1.03%) showed the highest appreciation with the Junior Market Index (-1.23%) declining the most during the period. For the Cross Listed Index, Guardian Holdings Limited Ordinary Shares (GHL; +4.30%), led the increase in the index on thin volumes of just 169 units. For the Select Index, NCB Financial Group Limited (NCBFG; +2.65%) mainly drove the increase, followed by Carreras Limited (CAR; +3.93%) and TransJamaican Highway Limited (TJH; +1.62%). The increase in TJH share price coincided with the Ministry of Transport announcement of the new proposed toll rates, which would take effect on July 6th, albeit below the maximum allowable increases under the concession agreement. There were no news releases to support price increases seen in NCBFG and CAR ordinary shares. On the other hand, the decline seen for the Junior Market index was primarily driven by Express Catering Limited (ECL; -7.30%) and Dolla Financial Services Limited (DOLLA; -12.50%).

1 Driven by large block trades in WIG and TJH.  
 2 There was a marginal 0.13% decline in the Junior Market Index.  
 3 Assessed based on IPO dates.

with weakened appetite, investors continued selling financial stocks resulting in a 5.38% YTD decline in the JSE Financial index. In contrast, the main market M&D and the EIM sectors showed resilience evidenced by price appreciation and corporate earnings growth<sup>4</sup>. The JSE M&D Index rose by 2.04% YTD as companies saw strong domestic and export demand for their products, which bolstered profits. Lasco Manufacturing (LASM; +45.24%) and Lasco Distributors (LASD; +35.47%) were earnings standouts YTD. With inflationary pressures easing, albeit slower than originally anticipated, several locally listed M&D companies are already benefitting from reduced direct and indirect costs. Similarly, the EIM sector grew, aided by gains in Caribbean Cement (CCC; +8.30%), Wigton Windfarm (WIG; +42.50%) and TransJamaican Highway (TJH; +14.81%). These companies reported significant growth with LTM profits increasing by 566.7%, 41.4% and 171.5%, respectively.

Despite the lacklustre H1 market performance, opportunities for long-term growth remain, particularly in undervalued financial companies and the resilient M&D and EIM sectors. Investors have an opportunity to acquire undervalued stocks poised for long-term growth. Several financial sector stocks stand out with relatively strong fundamentals and attractive price-to-book (P/B) multiples below 1.0x. The lower P/B multiples indicate that these stocks are potentially undervalued, offering significant upside potential if they return to historical averages. This value potential would be unlocked as earnings continue to recover. As rates decline, they should widen net interest margins, trading and unrealized gains, making financial stocks attractive for patient investors. Further, near-term regulatory changes, like Basel III and Twin Peaks implementation will increase compliance costs but are expected to increase financial system resilience and long-term profitability by strengthening capital adequacy, liquidity and other risk management frameworks. Resilient sectors like the

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main market M&D and EIM, should also benefit from BOJ rate cuts by allowing them to fast-track strategic expansions previously hindered by high financing costs. These strategic expansions should position them for sustained growth. With that said, investors seeking to capitalize on current market conditions and hold for the long term may find promising investment opportunities within these sectors.

Looking ahead to H2 2024 and beyond, the inflation and interest rates trajectories will continue to shape market dynamics, potentially fuelling a late-year rally in the stock market. The BOJ has already begun easing its monetary policy as it expects inflation to remain generally within the target range over the next two years, with minor deviations in 2025 due to fluctuations in agricultural prices. While the broader outlook is favourable, weather-related inflation spikes could create volatility in the financial markets. A hyperactive hurricane season is a key risk. The damage wrought by Hurricane Beryl to St. Elizabeth so early in the season poses a significant risk to the downward inflation trajectory. The disruption of produce supplies could delay the BOJ's plans to cut rates as food prices are a key component in Jamaica's CPI basket. These downside risks could reignite inflation pressures and prolong current interest rate conditions. Additionally, elections in countries like the US could have significant implications for the local economic landscape and by extension the business environment as possible policy shifts

could negatively impact consumers' disposable incomes and ultimately business profitability, particularly for companies reliant on export markets and imported inputs. Overall, while immediate market rallies are uncertain, by holding positions in undervalued sectors with strong fundamentals that are poised for growth, investors can navigate the market as it evolves and position themselves for future gains.

4 8 of 10 M&D and 5 of 6 EIM stocks saw YTD price appreciation. 8 of 10 M&D and 6 of 6 EIM stocks saw YTD corporate earnings growth.

## Foreign Exchange Market

The Jamaican dollar depreciated by 0.61% relative to the USD, week over week, with the USD selling rate moving from J\$156.72 on June 28, 2024, to J\$157.25 on July 5, 2024. The moderate depreciation was likely due to reduced trading last week given the passage of Hurricane Beryl, which resulted in business closures across the island. That said, with the Jamaican dollar trading above the J\$157 mark, the Bank of Jamaica (BOJ) could intervene in the market through its BFXITT program in the coming weeks, as prices over this amount are usually not deemed attractive to end-users.

Selling	Close: 28/06/24	Close: 05/07/24	Change
J\$/US\$1	\$156.30	\$157.25	<b>+\$0.96</b>
J\$/CDN\$1	\$115.48	\$121.72	<b>+\$6.24</b>
J\$/GBP£1	\$202.20	\$200.45	<b>(\$1.75)</b>

## Global Bond Prices

Higher-than-expected job openings indicate continued labour market tightness, but slower GDP growth keeps the US Fed open yet cautious about potential rate cuts. Last week provided a fresh read on trends in the US labour market with the release of the JOLTS job openings for May and US unemployment data releases in June. Job openings in May hit 8.1Mn, surpassing expectations, and were up slightly from the previous reading of 7.9Mn. Despite a decline from the peak in March 2022, openings remain above the 10-year average of 7.4Mn, indicating tight labour demand and a robust economy. Initial jobless claims for last week were 233,000, below expectations for 235,000 and the prior reading of 239,000. While it did drift lower last week, the number jumped to a 2-1/2 year high in mid-June, suggesting that labour market conditions were easing amid slowing economic growth. In June, the ADP Private-Payrolls report indicated a gain of 150,000 private-sector jobs, slightly below consensus but reflective of ongoing hiring demand. Nonfarm Payrolls showed that the U.S. added 206,000 jobs, slightly exceeding expectations and indicating continued hiring momentum amid mixed economic signals. While claims are higher than in late 2023 and early 2024, they remain historically low. The aforementioned paints a picture of a labour market that remains robust but seeps signs of moderation; however, economic growth is projected to continue to register lower figures than in 2023. Notably, the government confirmed last Thursday that economic growth moderated sharply in the first quarter, with GDP increasing at a slightly revised annual rate of 1.4%, down from 3.4% in the previous quarter. Despite expectations of a slight pickup in the second quarter, growth is not anticipated to exceed the non-inflationary rate of 1.8% according to Fed officials. These trends can incite further dovish yet cautious behaviour by the Fed as it aims to cut rates by September.

Following new labour market data as well as an unexpected increase in unemployment, this impacted US bond yields and the emerging market bond sector. The US 10-Year bond yield slid on Friday to close at 4.277% from 4.394% the week prior. Yields on two- to five-year notes were down as much as 10 basis points to session lows. The two-year yield fell as low as 4.60%, the lowest since April 1 and well below a 2024 peak of 5.04%. The emerging market, represented by the JPMorgan Emerging Market Index (EMBI), appreciated by 1.31% to close at 869.13 points, likely indicating increasing confidence in rate cuts.

Despite borrowing cost cut hopes, analysts predict a decline in EM issuance for the remainder of the year as many borrowers have already met their funding needs. JPMorgan and Bank of America anticipate a substantial reduction in bond sales, which could support prices due to reduced supply. Political volatility and the timing of the US election are key factors influencing market conditions, with some issuers potentially delaying sales until after the election. The market anticipates continued issuance from countries like Mexico, Turkey, China, and Indonesia, but overall, the market is expected to take a breather.

Next week's fresh readings on US inflation, including June consumer price data out on Thursday, will also be closely watched in markets as possible wakening in CPI data may further solidify rate cut hopes in September and lower treasury yields. Powell's semi-annual monetary-policy report to the Senate and the House will also be monitored for any clues on the central bank's path ahead<sup>5</sup>.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.75	5.61%	<b>BUY</b>
BACR (5.75%) 2026	BBB+/Stable	104.25	3.66%	<b>BUY</b>
BERMUD (3.72%) 2027	A2/Stable	99.50	3.93%	<b>BUY</b>
BERMUD (4.75%) 2029	A2/Stable	99.47	4.88%	<b>BUY</b>
CHTR (4.20%) 2028	Ba1/Stable	99.25	4.42%	<b>BUY</b>
CWCLN (6.875%) 2027	BB-/Stable	100.00	6.87%	<b>BUY</b>
DOMREP (5.50%) 2029	BB/STABLE	101.50	5.13%	<b>BUY</b>
DOMREP (5.95%) 2027	BB/STABLE	103.75	4.36%	<b>BUY</b>
DOMREP (6.00%) 2033	BB/STABLE	101.75	5.74%	<b>BUY</b>
DOMREP (6.00%) 2028	BB/STABLE	104.00	4.89%	<b>BUY</b>
DOMREP (6.88%) 2026	BB/STABLE	105.25	3.36%	<b>BUY</b>
DOMREP (8.625%) 2027	BB/STABLE	108.00	5.47%	<b>BUY</b>

<sup>5</sup> Bloomberg

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
GM (5.40%) 2029	Baa2/Stable	104.00	4.53%	BUY
GS (5.798%) 2026	A/Stable	103.50	4.02%	BUY
GS (3.85%) 2027	A/Stable	100.00	3.85%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	105.25	2.24%	BUY
NFLX (5.88%) 2028	BBB/Stable	107.25	4.03%	BUY
NRG (3.88%) 2032	BB/Positive	90.5	5.42%	BUY
OPY (5.50%) 2025	Ba3/Stable	102.75	3.16%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	102.50	4.74%	BUY
PRMRPA (10.75%) 2028	B+/Positive	111.75	7.37%	BUY
PYPL (2.85%) 2029	A-/Stable	94.5	4.03%	BUY
SFC (5.30%) 2028	BB-/Positive	99.00	5.59%	BUY
TPHLTT (9.00%) 2029	BB/ Stable	108.50	6.98%	BUY
TRAJAM (5.75%) 2036	BB-/Stable	93.00	6.59%	BUY
TRITOB (4.50%) 2026	Ba2/Stable	99.86	4.57%	BUY
WBD (4.13%) 2029	BBB-/ Stable	96.75	4.89%	BUY
FRICON (7.70%) 2028	B+/NRW	73.50	17.09%	HOLD
BANORT (5.75%) 2031	BB-/Stable	99.50	5.83%	SELL
CSOLNO (6.00%) 2027	B+/Stable	88.75	11.19%	SELL
PEMEX (5.35%) 2028	B+/Stable	94.00	7.29%	SELL

## GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.65	5.71%
	2039	117.75	6.07%
	2045	116.85	6.41%

\*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on

the respective client's behalf.

## Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
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 money market remained liquid. As of July 5, 2024, a total of J\$21.25Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). This was J\$17.98Bn more than on June 28th.

Demand for money market instruments remains high, evidenced by the oversubscriptions on the recent BOJ auction on July 2, 2024. The BOJ's Fixed rate 30-day CD competitive price auction was oversubscribed; bids received totalled J\$45.52Bn relative to the offer size of J\$37.0Bn. This implied a bid-to-cover ratio of 1.23, higher than the 1.13 last week. The average yield rose to 9.91% relative to 9.88% in the prior week. This yield; however, is still far below the yields north of 11.0% seen earlier this year. The next auction date for the Bank of Jamaica 30-day CD is July 10th.

At its meetings on June 26 and 27, 2024, the Bank of Jamaica's (BOJ) Monetary Policy Committee (MPC) unanimously agreed to begin a gradual easing of its monetary policy stance but decided to maintain the policy rate at 7.0% per annum. This decision follows a little over a year since the policy rate was raised to 7.0% and comes after four consecutive months of declining point-to-point inflation rates. In May 2024, Jamaica's headline inflation was 5.2%, the third consecutive month within the Bank's target range of 4%-6%, driven by contained domestic demand, a stable exchange rate, and lower imported inflation. Additionally, inflation expectations have stabilised, and wage pressures have moderated. Considering these positive trends, the BOJ's Monetary Policy Committee opted to gradually ease its monetary policy, starting with reducing liquidity absorption, while keeping the policy rate at 7.0%. The BOJ will gradually decrease its absorption of liquidity from DTIs through open market operations and a more relaxed monetary policy stance. This could potentially lead to lower average yields in the money market.

## Dates to watch this week

■ International ■ Local

July 2024				
MON	TUE	WED	THUR	FRI
<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>
FTNA Board of Directors Meeting (Dividend Consideration)  VMIL Dividend Payment Date (\$J0.032 per share)	Fed Chair Powell Speech	IPCL Dividend Payment Date (J\$0.03 per share)  VMIL Annual General Meeting  Core CPI YoY (Jun)  Inflation Rate (YoY) (Jun)  GBP GDP (MoM) (May)		

## Recommendations

Ticker	Closing Price (July 9, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR JA	9.54	13.13	13.61	<b>BUY</b>
CPJ JA	10.50	10.70	13.61	<b>BUY</b>
GK JA	73.21	9.40	15.40	<b>BUY</b>
INDIES JA	2.66	13.87	12.52	<b>BUY</b>
KEX JA	10.75	14.73	15.77	<b>BUY</b>
KW JA	25.99	11.69	9.98	<b>BUY</b>
LASM JA	6.38	11.08	13.61	<b>BUY</b>
SOS JA	1.66	13.91	16.15	<b>BUY</b>
SVL JA	22.95	23.52	13.21	<b>BUY</b>
SALF JA	3.72	19.28	13.61	<b>SELL</b>

## Regional News

### Trinidad & Tobago's Central Bank Maintains Repo Rate

Despite an increase in inflation, amid generally stable global economic conditions, the Monetary Policy Committee of the Central Bank opted to maintain the repo rate at 3.50%. In the Monetary Policy Announcement for June 2024, the MPC said, "Domestically, the low level of inflation and buoyancy of credit were supportive of the ongoing economic recovery, although the negative interest rate differential warranted close monitoring given its potential impact on the country's external balance." In Trinidad and Tobago, the latest data from the Central Statistical Office (CSO) showed that headline inflation rose to 0.9% (year-on-year) in May 2024 from 0.5% one month earlier. With core inflation (which excludes food prices) unchanged at 0.3%, higher food prices were primarily responsible for the upward drift of inflation. Food inflation accelerated to 3.1% in May compared with 1.1% in April 2024 on account of price increases for several locally produced and imported food items. Further, the MPC stated there are positive signs in terms of domestic economic recovery, "Production indicators monitored by the Central Bank during the fourth quarter of 2023 and into the first three months of 2024, such as local sales of cement and new motor vehicle sales, point to vibrancy in some non-energy sectors. Meanwhile, data from the Ministry of Energy and Energy Industries indicate that crude oil and natural gas outputs from the mature fields continued to slip over this period. "In terms of the financial sector, the MPC stated that the liquidity in the financial sector remained "ample" despite figures dropping slightly compared to last year. Finally, the report noted that interest rates on three-month treasuries in T&T continued to trend upwards, rising by 27 basis points (bps) since February 2024. That resulted in the differential between T&T and US three-month treasuries moving to -4.06% in May 2024 from 4.32% in February.

Source ~ Central Bank of Trinidad & Tobago

### Panama's New President Vows Migration Crackdown

Panama's new president, Jose Raul Mulino, took office on Monday, July 1, vowing to curb illegal immigration, with his government quickly signing an agreement with the United States to crack down on migration through the treacherous Darien Gap jungle passage. In his first address as president, Mulino, 65, promised to seek

international assistance to find solutions to what he described as a costly "humanitarian and environmental crisis." Last year, a record 520,000 migrants risked life and limb, often at the hands of people smugglers, to traverse the Darien Gap, a dense jungle on Panama's border with Colombia. "We cannot continue financing the economic and social costs that massive illegal immigration generates for the country, along with the consequent connection of international criminal organizations," Mulino said. Minutes later, Mulino's new foreign minister signed a memorandum of understanding with the U.S. government to "allow the closing off of the passing of illegal immigrants through the Darien," Panama's government said in a statement. The agreement was "designed to jointly reduce the number of migrants being cruelly smuggled through the Darien, usually en route to the United States," a spokeswoman for the White House National Security Council said in a statement.

Source ~ Reuters

## International News

### Friday's Jobs Report Expected to Show Slowing Payroll Gains as Concern Rises About Broader Economy

With signs that the labour market is at least slowing, if not something worse, the June nonfarm payrolls report takes on added significance. Payroll gains so far in 2024 have totalled 1.24 million, down about 50,000 a month below the same period a year ago. In historical terms, the pace of job gains is still solid. However, there are signs bubbling underneath that conditions could be getting softer and possibly pointing at broader economic weakness down the road. "This is a report that's coming at a point where there's a little more uncertainty about the economic landscape than there has been in a few months," said Nick Bunker, head of economic research at the Indeed Hiring Lab. The jobless level in May did nudge higher to 4%, the first time it hit that threshold since January 2022, up from 3.7% a year ago. The forecast is for the rate to hold there. Under normal circumstances, a 4% unemployment rate would be cause for celebration, not concern. However, what is catching the eye of some economists is where the rate is now compared with where it's been over the past year. The May rate was 0.5 percentage points above its 12-month low of 3.5% in July 2023, potentially triggering a recession indicator called the Sahm Rule. The rule has shown consistently that whenever the unemployment rate on a three-month average eclipse its 12-month low by half a percentage point, the economy is in recession.

While there are scant data signs that a recession is at hand, the trend in unemployment is generating some attention. There are also lingering inflation concerns that could keep the Fed on the sidelines for a while longer in terms of lowering interest rates. One other area of concern has been the divergence between the nonfarm payrolls count, as taken from establishments participating in the Bureau of Labor Statistics survey, against the household count of people reporting that they're holding jobs.

Source ~ Reuters

### **US Manufacturing Extends Slump; Inflation Pressures Ebbing**

U.S. manufacturing contracted for a third straight month in June as demand remained subdued, while a drop in a measure of prices paid by factories for inputs to a six-month low suggested that inflation could continue to subside. Manufacturing is being pressured by higher interest rates and softening demand for goods, though business investment has largely held up. The ISM's manufacturing PMI slipped to 48.5 last month from 48.7 in May. A PMI reading above 50 indicates growth in the manufacturing sector, which accounts for 10.3% of the economy. The PMI remains above the 42.5 level, which the ISM says over a period indicates an expansion of the overall economy. Economists polled by Reuters had forecast the PMI to climb to 49.1. It has indicated a contraction in manufacturing in 19 of the last 20 months. 62% of manufacturing gross domestic product contracted, up from 55% in May. The share of sector GDP registering a composite PMI at or below 45 — a good barometer of overall manufacturing weakness — jumped to 14% from 4% in the prior month. Eight manufacturing industries, including primary metals and chemical products, reported growth. Machinery, transportation equipment, electrical equipment, appliances and components as well as computer and electronic products were among the nine industries that contracted. The ISM survey's forward-looking new orders sub-index rose to a still-subdued 49.3 reading from 45.4 in May. Output at factories decreased for the first time since February. The production sub-index fell to 48.5 from 50.2 in May.

Source ~ Reuters

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