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**"Our favourite holding period is forever." -
Warren Buffett**

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“5 of 5”: BOJ’s Triumph; What’s in Store for Equity Investors

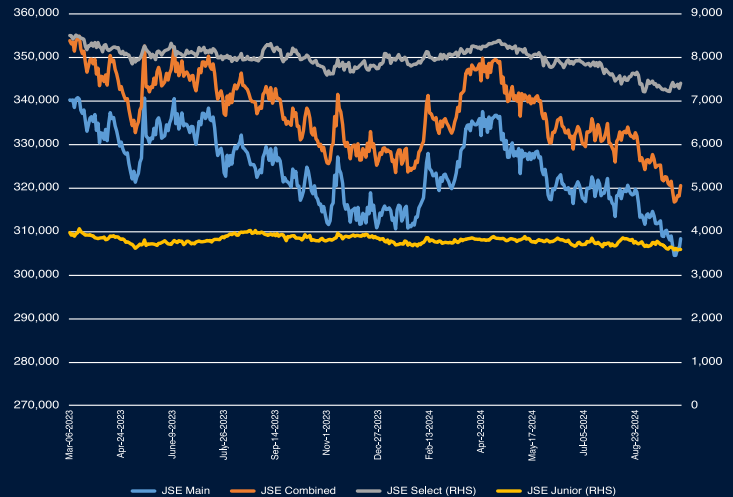
Imagine this, a shooter striking its target five times in a row. Consider the analogy in the context of inflation remaining within the central bank’s target range (4.0%-6.0%) for the last five consecutive months. Although it has flirted with the BOJ’s target range in April, September, and October 2023, the post-pandemic surge in inflation has proven hard to tame. From August 2021 to February 2024, the central bank struggled to get a solid grip on inflation, despite employing a contractionary monetary policy through increased rates and sharp reductions in market liquidity. During this period, it adjusted its benchmark rate by 650 basis points and held it there from November 2022 until its last meeting on August 19, 2024. As such, the last five months of sustained precision in inflation outturn is a major accomplishment in economic stability and policy effectiveness. Higher rates and the accompanying tight liquidity have depressed the local equity markets as investors turned their attention and cash flow to higher-yielding, lower-risk money market instruments and bonds. The tight market liquidity has also kept institutional investors out of the market, despite the strong post-COVID economic recovery and the rebound in earnings of many corporates. Fortunately, with inflation back within its target range for a sustained period, it has allowed the BOJ to make its first rate cut in more than three years on August 21st - a 25-basis point reduction in its benchmark rate to 6.75%. Are more rate cuts on the horizon? What does this mean for the stock market outlook and valuations, if anything? How should investors be positioning their stock portfolios?

While inflation has fallen steadily over the past five months,

near-term risks to the inflation trajectory could slow the pace of additional interest rate cuts. Point-to-point inflation has dropped from 6.23% in February to 5.1% in July (see Figure 1). Controlled domestic demand, a stable currency, and a decrease in imported inflation have been the main factors behind cooling consumer prices. Food prices have seen a slower rise, with an average point-to-point increase of 3.9% over the past five months, a significant drop from the 8.2% increase in the preceding period. Additionally, the average prices in the Restaurant and Accommodation Services sector have experienced disinflation, averaging 5.7% compared to the 10.4% in the five months ending February. However, the aftereffects of the most recent major weather event, Hurricane Beryl, could put a spoke in the wheel. The Hurricane adversely affected Jamaica’s agricultural production and resulted in a sharp rise in the prices of key produce. In fact, the BOJ predicts inflation will temporarily rise from its current level and breach the upper end of its target range over the next three to five months (August to December 2024)¹ as a result. If inflation is expected to exceed the BOJ’s target range in the near term, this could limit its ability to make further cuts to its benchmark rate over the next few months. Furthermore, it suggests that the central bank is likely to adjust rates a lot more slowly downwards than it did in its rate hiking cycle.

However, the general expectation is that rates will fall over time as the inflationary impact of Hurricane Beryl wanes. The outlook for lower inflation and interest rates is supported by the general level of aggregate demand and wages in the economy, fiscal

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	320,352.26	0.48%	-5.54%
Main Market Index	308,191.55	0.59%	-5.38%
Select Index	7,383.80	-0.23%	-9.07%
Junior Market Index	3,574.54	-0.83%	-7.11%

WINNERS & LOSERS FOR THE WEEK ENDED AUGUST 23, 2024

	\$ Change	% Change
Edufocal	+0.06	+17.65%
KREMI	+\$0.40	+13.11%
FirstRock	-\$0.01	-18.98%
CHL	-\$2.04	-16.71%

MARKET OVERVIEW

As the market continues to pick up some steam after a slow start to August, 5 of 9 market indices appreciated for the week ending August 23, 2024, up from 3 in the prior week. The JSE Cross-Listed Index saw the largest increase of 3.11% while the JSE Junior Market Index saw the largest decline (-0.83%). Massy Holdings Ltd. (+3.46%), the heaviest weighted stock in the JSE Cross Listed Index, led the increase in the index, and to a lesser extent, MPC Caribbean Clean Energy Ltd (+2.32%), though all other companies in the index saw price appreciations. Express Catering Limited (-16.63%) and Cargo Handlers Limited (-6.82%) underpinned the decline in the Junior Market Index. There was no company-specific news for the named companies to support the price appreciations last week. However, for the decliners, the 25.1% year-on-year decline in 9-months net profit for Cargo Handlers for the period ended June 30, 2024, likely contributed to the decline in its share price. Further, the delayed publication of Express Catering’s Audited Financial Statements for the year ended May 31, 2024, as well as the delayed notice to the public likely contributed to its price decline. The company noted that the delay and late notice were due to extenuating circumstances and that Audited Financials should be ready by August 30, 2024.

Last week’s overall market activity resulted from trading in 121 stocks of which 56 advanced, 51 declined and 14 traded firm. Market volume amounted to 179.71Mn units valued at over J\$591.88Mn reflecting a 16.3% increase in volume and a 4.0% increase in value week over week. MFS Capital Partners Limited, Radio Jamaica Limited, and Edufocal Limited were the volume leaders with 86.09Mn units (47.73%), 17.34Mn units (9.61%), and 11.58Mn units (6.42%) respectively.

1 Bank of Jamaica – Monetary Policy Press Release August 2024

policy and the path of US interest rates. The BOJ's Monetary Policy Committee (MPC) noted that the government has indicated that domestic fiscal policy will address the post-hurricane recovery efforts by utilising existing savings and insurance² and re-prioritising expenditures. In this context, the MPC is of the view that fiscal policy will continue to pose no risk to inflation over the near term. The lagged effect of the Bank's relatively tight monetary policy posture also continues to impact the economy. Against this background, domestic demand conditions are moderating, as reflected in selected sectors of the economy and in easing wage pressures³. Furthermore, the US Federal Reserve is widely expected to deliver a rate cut in September as US inflation decelerates to acceptable levels. With prices in the US cooling, imported inflation from the US, Jamaica's primary trading partner, is not expected to pose a significant risk to local inflation. Any rate adjustment from the US Fed also gives the BOJ room to adjust its benchmark rate without adversely impacting the interest differential for both currencies and risking currency instability.

What does all this mean for financial markets? What strategy should equity investors be employing at this time? The recent rate reduction has been well received by the business community, and consumers, not because of the magnitude of the rate cut, but rather because it signals that the Central Bank has changed its monetary policy stance. The 25-basis points rate cut represents a small fraction of the 650-basis point rise in rates starting in 2021 and is likely not enough to materially shift market sentiment nor significantly lift overall stock activity in the near term. However, over time as rates fall it can translate to gradual reductions in the cost of borrowing. This makes business expansion using debt more feasible, translating to a higher demand for debt financing via bonds or loans from businesses for investment. Lower interest rates can also help reduce the burden of

Furthermore, lower interest rates can boost equity valuations by reducing the discount rate used in valuing future cash flows, making those cash flows more valuable in present terms.

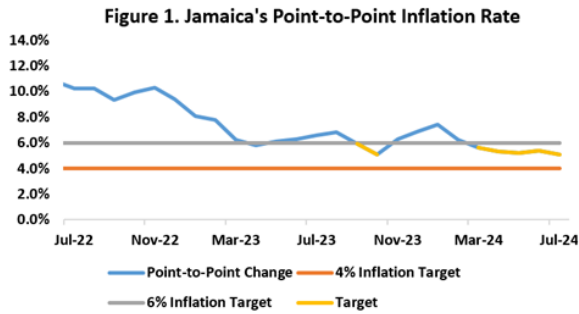
existing debt for both households and businesses, freeing up more cash for consumption and demand for goods and services. Additionally, the competition for high-yielding assets should shift from short-term instruments like certificates of deposits to riskier assets like equities and longer-term bonds. This can lead to a recovery in stock market activity with higher trade volumes reflecting higher investor confidence in the equity market. Furthermore, lower interest rates can boost equity valuations by reducing the discount rate used in valuing future cash flows, making those cash flows more valuable in present terms. Notably, stock market valuations have fallen from an average of 28.0 times earnings per share at the end of December 2019, to an average of 14.0 times as of July 31, 2024. The Real Estate Sector has witnessed the largest drop in P/E multiples, with an average decline of over 70.0%. Financial Sector entities from both the Main Market and Junior Market are poised to benefit greatly from rate cuts. Given that borrowing costs would be cheaper, other sectors like manufacturing & distribution are set to benefit as previous debt-financed expansions can now be refinanced at a lower rate, leading to lower finance costs and thus higher profitability. Falling interest rates should support a rise in valuations towards historical levels and with it a recovery in stock prices. With that said, the smart money should anticipate an increase in stock prices as rates fall. They should see the current change in the

interest rate cycle as an opportunity to buy into the stock market now to take advantage of the expected increase in equity valuations and by extension, stock prices as rates fall. While interest rates are expected to fall slowly, it is best not to time the market but to take a long-term view of equity investing and look to buy companies with sound strategies and strong earnings potential in industries with long-term growth potential at these historically low market valuations.

Given BOJ's transition to a more expansionary monetary policy stance as inflation stabilised within the target range in recent months, the outlook for the local equity market is favourable. Interest rates are expected to fall gradually, paving the way for lower yields on fixed-income investments like money market instruments and making equities more attractive for investors seeking better returns. The improved market liquidity as the BOJ relaxes monetary policy should also facilitate an increase in the flow of funds to the local market over time, which should support the market recovery. Moreover, further reductions in policy rates are likely to boost stock market valuations, with historical highs suggesting significant upside potential. However, it is likely to take time and a further reduction in rates for the stock market to regain momentum. We view this as an opportunity for the patient investor to take advantage of the current market lull to realize significant value over time. The smart money will not seek to time the market but to look for buying opportunities now while valuations remain attractive.

2 JIS - Jamaica's Tropical Cyclone Policy with the Caribbean Catastrophe Risk Insurance Facility (CCRIF) triggered a payment following the passage of Hurricane Beryl amounting to approx. US\$16.3Mn.

3 Bank of Jamaica - Monetary Press Release August 2024



Foreign Exchange Market

For the week ending August 23, 2024, the Jamaican dollar depreciated slightly with the USD selling rate moving from J\$158.26 on August 16, 2024, to J\$158.48 on August 23, 2024. The depreciation was driven by strong demand for the USD currency, which outweighed the existing supply. Despite this, there was no Bank of Jamaica (BOJ) intervention last week through the B-FXITT Programme, after intervening on the market three times with a total of US\$120Mn to combat the depreciation of the JMD against the USD in the prior week.

Selling	Close: 08/16/24	Close: 08/23/24	Change
J\$/US\$1	\$158.26	\$158.48	+\$0.22
J\$/CDN\$1	\$115.36	\$116.78	+\$1.42
J\$/GBP£1	\$202.88	\$208.61	+\$5.73

Global Bond Prices

Last week, markets were focused on the release of the Federal Reserve (Fed) Minutes from its July 20-21 meeting, which suggested that the Central Bank was moving closer to a rate cut. Notably, the summary of the minutes noted that the “vast majority” of participants “observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting. The minutes gave greater optimism to investors given the prior week’s release of both the Consumer Price Index (CPI) and Producer Price Index (PPI), which showed that prices were still broadly on a downward trend. CPI data for July showed a 0.2% monthly increase and a 2.9% year-over-year rise, the second consecutive month below 3.0% and the slowest pace since early 2021. Core CPI, which excludes food and energy costs and is seen as a better indicator of underlying inflation, increased by 3.2% year-over-year, hitting a 40-month low. Similarly, July’s PPI inflation was lower than expected, with a 0.1% monthly increase and a 2.2% year-over-year rise, marking the smallest annual increase since April. Core PPI showed no change for the month. Overall, the data along with the recent Minutes reinforced expectations for a potential Fed rate cut, with the probability of a 25-basis point cut at the next meeting on September 18 moving from

49.0% before the price data and Minutes release to 76.0% at the end of last week, according to the CME FedWatch Tool. Additionally, the U.S. 10-year Treasury yield declined, closing at 3.79% from 3.89% the prior week.

Emerging Market (EM) Bonds also reacted to these developments. Prices closed higher for some EM government issues, including those from Barbados, Bermuda, Costa Rica, Jamaica, Panama, the Dominican Republic, and Trinidad and Tobago. The prospect of lower U.S. rates generally supports emerging market assets by reducing the appeal of the dollar and lowering borrowing costs globally. Despite this, EM Bonds remain sensitive to any abrupt changes in the Fed’s stance or unexpected economic data that could alter the interest rate outlook.

Looking ahead, more U.S. inflation data will be released this Friday as the Fed’s preferred inflation metric, Personal Consumption Expenditure (PCE), for July, is set to be announced. It is anticipated that core PCE inflation will rise to 2.7% from 2.6% while headline PCE inflation will rise slightly to 2.6% from 2.5%. Both are below the Fed’s PCE inflation estimates for 2024, which called for 2.6% headline inflation and 2.8% core inflation.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	105.50	5.16%	BUY
BACR (5.75%) 2026	BBB+/Stable	104.75	3.29%	BUY
BERMUD (3.72%) 2027	A2/Stable	101.25	3.17%	BUY
BERMUD (4.75%) 2029	A2/Stable	103.75	3.83%	BUY
CHTR (4.2%) 2028	Ba2/Stable	101.00	3.89%	BUY
DOMREP (5.5%) 2029	BB/Stable	104.00	4.50%	BUY
DOMREP (8.625%) 2027	BB/Stable	108.50	5.13%	BUY
DOMREP (5.95%) 2027	BB/Stable	104.75	3.85%	BUY
DOMREP (6%) 2033	BB/Stable	105.00	5.26%	BUY
DOMREP (6%) 2028	BB/Stable	105.75	4.37%	BUY
DOMREP (6.88%) 2026	BB/Stable	105.25	3.45%	BUY
GM (5.4%) 2029	Baa2/Stable	100.75	5.07%	BUY
GS (5.798%) 2026	A2/Stable	103.80	3.75%	BUY
GS (3.85%) 2027	A2/Stable	101.50	3.19%	BUY
NFLX (5.88%) 2028	A/Stable	109.75	3.37%	BUY
NFLX (4.875%) 2030	A/Stable	102.50	4.38%	BUY

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
NRG (3.875%) 2032	BB/Positive	94.50	4.76%	BUY
OPY (5.5%) 2025	Ba3/Stable	102.50	3.13%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	103.50	4.05%	BUY
PRMRPA (10.75%) 2028	B+/Positive	111.75	7.27%	BUY
PYPL (2.85%) 2029	A-/Stable	97.00	3.50%	BUY
SFC (5.3%) 2028	BB-/Positive	101.00	5.00%	BUY
TPHLTT (9%) 2029	Ba3/Stable	108.25	7.00%	BUY
TRAJAM (5.75%) 2036	BB-/Positive	95.50	6.28%	BUY
WBD (4.13%) 2029	BBB-/Stable	97.50	4.72%	BUY
FRICON (7.7%) 2028	B+/NRW	71.75	18.24%	HOLD
BANORT (5.75%) 2031	Baa2/Positive	96.25	1.74%	SELL
CSOLNO (6%) 2027	B+/Stable	13.75	240.87%	SELL
PEMEX (5.35%) 2028	B3/Negative	104.25	-3.16%	SELL
NFE (6.5%) 2026	BB-/Stable	103.50	-196.77%	SELL
NFE (6.75%) 2025	BB-/Stable	101.25	5.65%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.00	4.72%
	2039	120.45	5.80%
	2045	120.00	6.16%

*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%	103.75	8.18%
PBS	2025	8.85%	100.85	6.03%

Money Market

Last week, the JMD money market remained liquid. As of August 23, 2024, a total of J\$122.16Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). The aggregated closing current account balance increased by J\$68.98Bn from J\$53.18Bn on August 16th. The increase in the current account balance is likely due to salaries being paid out along with the latest BOJ CD auction which pushed up funds in circulation on the 23rd but was later settled and contracted money supply on the 26th. Furthermore, lower overnight rates offered to commercial banks on current account balances and short-term liquidity financing, thereby reducing borrowing costs incurred by Banks and increasing the likelihood for greater liquidity, likely added to the current account balance increase. Looking ahead, based on BOJ's MPC June 2024 meeting notes, Jamaica dollar liquidity is expected to remain tilted towards the short end of the money market for the rest of the June and September 2024 quarters as investors manage funds to fulfil Jamaica dollar obligations.

Demand for money market instruments remains high, evidenced by the oversubscription of the BOJ 30-Day CD auction on August 22, 2024, though the weighted average yield continues to trend downwards as investors bid conservatively to secure the asset. Furthermore, given the decrease in the rate offered on overnight balances on the current accounts of DTIs, the coupon on the Bank's weekly 30-day CD was reduced to 7.25% from 7.50%. The average yield from the BOJ's 30-day competitive price auction fell to 7.99% relative to 8.84% in the prior week and down from a high of 11.90% in April 2024. Bids received totalled J\$89.9Bn relative to the offer size of J\$49.0Bn. This implied a bid-to-cover ratio of 1.83x, below the 2.0x ratio recorded in the previous week. The next auction date for the BOJ 30-day CD is the 28th of August. Finally, the GOJ's Fixed Rate (FR) 10.00% Benchmark Investment Notes Due 2028 and 2037, auctioned on August 20, 2024, were both oversubscribed, offering an average yield of 7.50% and 8.01%, respectively.

Dates to watch this week

■ International ■ Local

August 2024				
MON	TUE	WED	THUR	FRI
26	27	28	29	30
	PANJAM Dividend Payment Date (J\$0.10 per share)	Purity and KEY Annual / Extra-Ordinary General Meeting	Producer Price Index (July) (STATIN) GHL Dividend Payment Date (TTD0.23 per share)	US Core PCE Price Index (MoM) (YoY) (July) CAD GDP (QoQ - Q2) (MoM - June)
			US GDP (QoQ) (Q2) US Initial Jobless Claims	ECL, JPS 9.5% Pref. 'F', JS, JSE, and MGL Dividend Payment Date (US\$0.000306, US\$0.239452054794521, J\$0.078, and J\$0.125 per share, respectively)

Recommendations

Ticker	Closing Price (August 27, 2024)	P/E	Avg. Sector P/E	Current Recommendation
GK JA	\$73.37	9.1x	14.3x	BUY
INDIES JA	\$2.50	13.0x	13.9x	BUY
FNTA JA	\$8.23	16.1x	18.6x	BUY
OMNI JA	\$1.03	16.7x	15.2x	BUY
KEX JA	\$10.57	14.5x	15.2x	BUY
KW JA	\$1.62	18.0x	18.6x	BUY
SVL JA	\$21.17	27.2x	20.7x	BUY
SALF JA	\$3.85	16.7x	13.3x	SELL

Regional News

Chile's GDP Down in Q2, Economists See Room for Rate Cuts

Chile's gross domestic product fell 0.6% in the second quarter of 2024 (Q2 2024) compared with Q1 2024, according to data released by the country's central bank. The 6% decline aligns with market expectations and is likely to open room for the central bank to deliver more interest rate cuts through the end of the year, economists say. Last month, the local monetary authority kept its benchmark rate on hold at 5.25% following eight cuts in a row since July 2023. According to the bank, the quarterly GDP drop was a result of weaker activity in mining, services and manufacturing in the world's largest copper producer, where mining GDP fell 1.0% on a sequential basis. The result marked a steep deceleration from the revised 2.1% quarter-on-quarter growth reported in Q1 2024, which also set a strong comparison base for Q2 2024.

Chile's economy had been regaining ground after facing a sharp economic downturn in 2023, which followed a rapid post-pandemic recovery that generated inflationary pressures and led the central bank to hike rates. However, as inflation receded, the bank lowered borrowing costs by a total of 550 basis points since July 2023 to the current 5.75%. "The fall in Chilean GDP in the second quarter is mainly payback for a strong first quarter, and we expect a return to positive growth in the third quarter," Capital Economics' emerging markets economist Kimberley Sperrfechter said. Still, "the weakness shown in the second quarter means that there's scope for the central bank to deliver two more 25-basis-point interest rate cuts, to 5.25% over the remainder of this year," she added.

Source ~ Reuters

Mexico's GDP and Inflation Figures Support Bets Of A September Rate Cut

Mexico's statistics agency INEGI (National Institute of Statistics and Geography) released on Thursday, August 22, a series of data showing that inflation slowed more than expected while growth remained tepid, opening the door for the country's central bank to deliver a new interest rate cut next month. The Bank of Mexico (Banxico) lowered its benchmark interest rate to 10.75% from 11% in a split vote in early August, despite higher forecasts for year-end headline inflation, and reinforced its view on Thursday that further policy adjustments were on the table. Another rate cut when

policymakers meet again on Sept. 26 is now seen as more likely, especially after INEGI reported that annual inflation undershot market forecasts in its mid-August print, easing more than expected. In Latin America's second-largest economy, 12-month headline inflation came in at 5.16% in the first half of August, down from the 5.61% registered a month earlier and below the 5.31% forecast by economists polled by Reuters. That is still well above the bank's 3% inflation target, plus or minus 1 percentage point. However, the closely monitored core consumer price index - seen as a better gauge of price trends because it strips out volatile energy and food prices - continued to ease, with the annual reading falling below 4% for the first time since early 2021.

INEGI data also showed that Mexico's gross domestic product (GDP) expanded 0.2% in the second quarter from the previous three-month period, which is in line with market expectations but reinforces a slowdown trend seen since late last year. In annual terms, growth in the April-June quarter sat at 2.1%, while economists polled by Reuters and a preliminary estimate released by INEGI last month had pointed to a 2.2% expansion. Economic activity in June, INEGI added in a separate report, was unchanged from the previous month and dropped 0.6% on a yearly basis - both below consensus. "The August mid-month CPI print, alongside the weak activity data for June and the Fed's confirmation that it will kick off its loosening cycle next month, means that we expect Banxico to lower its policy rate by another 25 basis points in September," Capital Economics economist Kimberley Sperrfechter said

Source ~ Reuters

International News

Fed Steaming Toward September Rate Cut, Minutes from Meeting Show

The Federal Reserve (U.S. Fed) appears to be very much on track for an interest rate cut in September after a "vast majority" of officials said such an action was likely, according to the minutes of the U.S. central bank's July 30-31 meeting. The minutes, which were released last Wednesday, August 21, even showed some policymakers were willing to reduce interest rates at last month's gathering. The policy-setting Federal Open Market Committee (FOMC) of the U.S. Fed left its benchmark interest rate unchanged in the 5.25%-5.50% range on July 31. However, it opened the door to a cut at the Sept. 17-18 meeting. Financial markets have been expecting the September meeting to kick off

the Fed's policy easing, with a total of as much as a full percentage point worth of rate cuts expected by the end of this year.

At the July meeting, most policymakers thought that "if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting," the minutes said. They also noted that "many" Fed officials viewed the stance of rates to be restrictive and "a few participants" contended that amid an ongoing cooling in inflationary pressures, no change in rates would mean that monetary policy would increase the drag on economic activity. While all Fed officials were on board with keeping rates steady in July, the minutes revealed that "several" policymakers said progress in lowering inflation amid a rise in joblessness "had provided a plausible case" for a quarter-percentage-point cut in July, "or that they could have supported such a decision" had it been on the table. The minutes also showed that a dwindling camp of policymakers feared a premature easing in monetary policy could restart inflation.

Source ~ Reuters

Canada Inflation Cools to 40-Month Low of 2.5% in July

Canada's annual inflation rate cooled to a 40-month low of 2.5% in July, matching forecasts. Core inflation measures eased as well, data showed keeping the Bank of Canada (BOC) on track to cut interest rates again in September. Analysts polled by Reuters had forecast inflation to cool to 2.5% from 2.7% in June. The consumer price index also aligned with forecasts, up 0.4% on a monthly basis according to Statistics Canada data.

Money markets expect another 25-basis point cut at the BOC's next rate announcement on Sept. 4 and are nearly pricing in a total of three more cuts this year. Most economists are also factoring in a similar rate reduction trajectory for the rest of the year, which would bring down the benchmark rate to 3.75% by year-end. The central bank trimmed its policy rate at its last two meetings, bringing it down to 4.5% from 5.0% before the first cut. However, at its monetary policy announcement last month, it pivoted from the narrative of only trying to suppress inflation to also boosting the economy. The inflation rate is now the closest to the Canadian central bank's 2% target since 2.2% inflation in March 2021, when prices were beginning to rise after about a year into the coronavirus pandemic.

Source ~ Reuters

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