

Market Guide

September 2, 2024

THIS ISSUE

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“Buy into a company because you want to own it, not because you want the stock to go up.” - Warren Buffett

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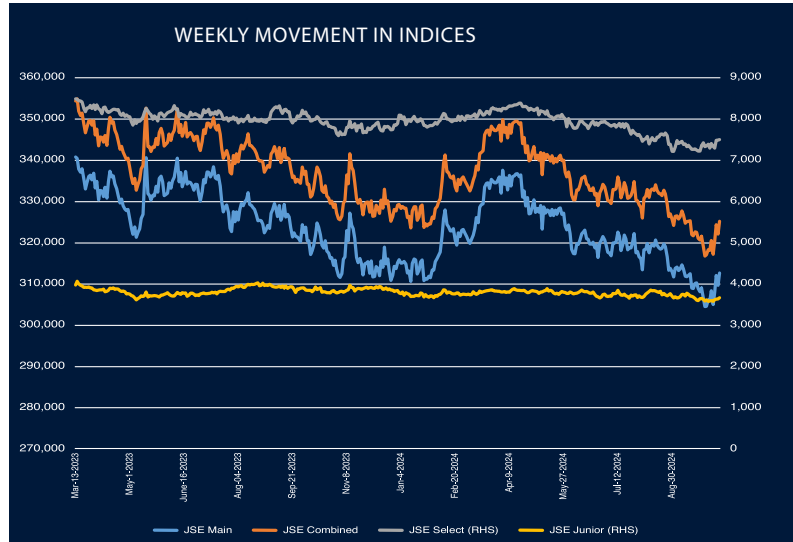
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Credit Quality in Emerging Markets on the Upswing

Improving credit quality of Emerging Markets (EMs) issuers and the expected easing in financing conditions globally are signalling opportunities for bond investors. Resilient economic activity, contained inflation rates, solid domestic demand, and falling interest rates are fueling this positive shift for these issuers. Over the last 4 years, EMs have endured a downturn in economic activity and a deterioration in credit conditions as the effects of the COVID-19 Pandemic and the Russia-Ukraine crisis led to a surge in global prices. This triggered a tightening of monetary policy across many of these economies. The resulting spike in interest rates globally, combined with higher levels of indebtedness weighed on the credit quality of EM. However, emerging economies are gradually regaining their growth momentum in comparison to their developed counterparts. Furthermore, inflation rates across most EM regions are now trending broadly within local Central Banks' comfort zones. As a direct response to these stabilising conditions, some central banks in EM have initiated rate cuts that are bolstering their economic prospects and reducing the cost of the refinancing of existing debts for these issuers. This trend has also contributed to a notable decline in default rates since the start of 2024, with S&P's 12-month trailing EM speculative-grade default rate falling to 2.6% in June, down from 2.8% in December 2023. In Latin America, where all EM central banks have commenced rate reductions, the default rate amounted to 3.4% in June, down from its 2023 peak of 3.9% in November 2023. Furthermore,

if the soft landing scenario continues to materialise in the United States (U.S.) and the Federal Reserve (Fed) cuts rates as expected in September, it would create further space for EM central banks to reduce rates and lead more favourable financing conditions for both EM corporates and sovereigns. This could lead to a reduction in default risk and could potentially drive higher credit ratings. Moreover, with the improving credit outlook and the general outlook for interest rates to begin to decline, EM bonds stand to become increasingly appealing to investors. This increase in demand should support higher returns from a total return perspective as prices begin to appreciate.

Economic activity remains resilient across most EMs, as still strong consumer demand boosts activity across most sectors, creating tailwinds for better economic performance, and more favourable credit conditions for corporates and sovereigns. Importantly, several emerging economies have reported economic growth that has exceeded initial estimates for 2023 with global activity and trade experiencing a resurgence². This is being supported by supply chain normalisation, strong exports, easing commodity prices, and low unemployment rates. Since the start of 2024, financial and economic performance releases have continued to reflect these positive trends through growth in GDP³ and higher profitability (EBITDA)⁴. With the stabilisation of economic trends, financing costs for EM issuers are anticipated to fall benefiting corporates through the favourable effects



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	325,003.57	1.45%	-4.17%
Main Market Index	312,499.25	1.40%	-4.05%
Select Index	7,475.10	1.24%	-7.94%
Junior Market Index	3,649.12	2.09%	-5.18%

WINNERS & LOSERS FOR THE WEEK ENDED AUGUST 30, 2024

	\$ Change	% Change
ENERGY	+0.29	+34.52%
CFF	+\$0.33	+28.21%
KLE	-\$0.70	-31.82%
RAWILL	-\$0.28	-28.00%

MARKET OVERVIEW

We may be bidding farewell to summer, but the local market appears to be heating up. For the first time since the start of the year, all nine indices advanced. Leading the charge were the JSE USD Equities and the JSE Manufacturing & Distribution Indices, which appreciated by 5.0% and 2.8%, respectively. A.S. Bryden & Sons Holdings Limited USD (ASBH: +13.1%) and TransJamaican Highway (TJH: +5.3%) were the standout performers in the USD Equities Index. Meanwhile, the JSE Manufacturing & Distribution Index's rally was led by Seprod (SEP) and its subsidiary, ASBH, with their share prices climbing 7.2% and 6.5% respectively. There was no company-specific news to support these movements. Our short-term forecast for the stock market suggests that the Bank of Jamaica's initial 25-basis point reduction is unlikely to significantly stimulate the market. However, looking at the medium term (the next 1 to 3 years), we anticipate that a continued decline in rates will lead to a market rebound.

Notably, the Jamaica Stock Exchange (JSE) successfully completed its second Junior Market listing this year with the pharmaceutical company R.A. Williams (RAWILL), listed on Wednesday, August 28, 2024. On its first day of trading, RAWILL closed at \$0.78, 22% below its IPO price, marking the first occurrence of a stock trading below its IPO price on its first day of listing, since TJH's listing during the COVID-19 pandemic. The company share further traded down to close the week at \$0.72.

Last week's overall market activity resulted from trading in 124 stocks of 70 advanced, 40 declined, and 14 traded firm. Market volume amounted to 165.79Mn units valued at over J\$677.85Mn reflecting a 7.7% decrease in volume, but a 14.5% increase in value relative to the previous week. Radio Jamaica Limited (RJR), Jamaican Teas Limited (JAMT) and TRANSJAMAICAN HIGHWAY LIMITED USD (TJH) were the volume leaders with 25.27Mn units (14.07%), 19.09Mn units (10.64%), and 13.53Mn units (7.53%), respectively.

1 According to the financial times (The world should take notice — the rest are rising again, August 2024), the proportion of emerging economies in which per capita GDP is likely to grow faster than develop countries like the US is anticipated to move from 48% over the past five years to 88% in the next five years. That share would match the peak of the emerging world boom in the 2000s.

2 According to S&P Global Ratings, EMs with strong trade ties with advanced Europe and US are benefiting from a modest recovery in household spending, with positive effects on manufacturing production (trade). According to S&P Data, median industrial production across EMs is currently trending in line with historic levels (2011-2019).

3 Jamaica (Q1: 1.4%), Barbados (H1 2024: 4.5%), Mexico (Q2: 0.2%), Brazil (2.5%), Peru (Q2: 3.6%)

4 NRG (Q2: +14.2%), ALSEA (Q2: +4.0%), CWC (Q2: +3.2%)

of lower interest rates and inflation on demand, consumer purchasing power, and ultimately profitability and liquidity. Concurrently, many EM sovereigns will likely require less funding to sustain fiscal activity as increased tax revenue, lower unemployment rates, and increased economic growth reduce the need for government-funded initiatives. This should support ongoing consolidation efforts and alleviate debt burdens, which could restore their credit quality. These possibilities have resulted in an increasingly optimistic outlook for EM, with rating agencies expressing greater confidence in the evolving landscape. Of note, throughout 2024, positive rating actions by both Moody's and S&P Global for EM have exceeded negative rating actions showing a consensus on improved credit quality⁵. 2024 is also expected to be the first year since 2020 that EM corporate default levels will fall below the historical average⁶. Moreover, Moody's EM corporate speculative-grade default rate is anticipated to fall to 3.9% by the year's end and further to 3.3% by Q1 2025, far below the peak of nearly 15% at the end of 2022. However, this is contingent on continued interest rate declines, economic stabilisation, and no escalation of geopolitical tensions.

Although the timing of policy rate reductions for some remains contingent upon the Federal Reserve's actions, as economic risks subside in emerging and developing markets, central banks are on a trajectory of rate easing, which will also contribute to improving financing conditions. Notably, credit stress linked to inflation and liquidity challenges emerged earlier in EM than in the developed markets as they initiated interest-rate hikes before the Fed and other major central banks like the European Central Bank and the Bank of England. The proactive approach of EM central banks resulted in inflation falling faster in these markets, allowing many to cut rates ahead of their counterparts in the developed world, with Latin American nations

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leading the charge last summer. These timely monetary policy actions have allowed EM issuers to reduce funding costs in domestic capital markets and through bank financing, which they have been limited to given the high-cost financing landscape globally. Moreover, it has facilitated more manageable debt servicing and lower risk of defaults, as issuers refinance existing obligations at longer tenors. That said, monetary policy in other EM countries remains tight with rates largely on hold as central banks monitor the Fed's moves. This is primarily because EM central banks are unlikely to cut aggressively in the face of a stronger US Dollar and weaker local currencies, given the potential to reignite inflation pressures⁷. Nonetheless, the Fed's highly anticipated first rate cut in September may incentivise EM central banks to implement further reductions and open the door for those that have yet to initiate any interest rate adjustments.

Improving credit conditions, positive growth trends, and inflation, together with anticipated Fed rate cuts, present a compelling case for EM bonds. EM bonds saw broad-based gains in the first half of 2024, building on their positive performances at the end of 2023⁸. Furthermore, with the expectation for credit quality among EM issuers to continue to improve, credit spreads will tighten further, pushing up the price for these bonds. Given this, EM bondholders are expected to

see higher total returns, without a significant uptick in volatility, particularly given the current, strongly negative correlation between spreads and rates. Additionally, once U.S. policy rates begin to fall, driving down yields on U.S. government and investment grade corporate bonds, higher-yielding EM bonds will become increasingly attractive to investors, lending itself to further bond price appreciation and capital gains. Overall, as interest rates decline and issuers' credit quality improves, the potential for higher total returns grows, which will drive market demand for EM bonds. This will allow existing EM bondholders to see higher gains (price increases) on their bonds. Although EM bond prices have risen since the start of the year, current price points are still an attractive entry point for new investors, given the interest rate outlook. That said, macroeconomic and by extension credit risks remain from the uncertainty about the path and timing of US interest rate cuts, geopolitical risks, and the outcome of the US presidential election. As we navigate this complex landscape, active management and careful selection from EM issuers with strong fundamentals will continue to be crucial to managing risks while harnessing the opportunities that these markets present.

Foreign Exchange Market

At the close of the week ending August 30, 2024, it took 0.28% less Jamaican Dollars to purchase one USD, as the local currency gained marginal ground in trading activity. The weighted average selling rate for US\$1 was J\$158.03 last Friday. The Bank of Jamaica (BOJ) intervened in the market last Thursday selling a total of US\$40Mn, in attempt to address demand and supply imbalances in the market.

⁵ In a June 2024 issue by S&P Global ratings, the company noted that the rating action count has been net positive since April, following 18 upgrades, eight of which were triggered by the sovereign rating action on Türkiye, and 14 downgrades, six of which followed the downgrade of Peru.

⁶ Reuters, JPMorgan cuts forecast for emerging market corporate defaults, July 2024

⁷ State Street Global Advisors, Emerging Market Debt Outlook Opportunities Amid Uncertainty, April 2024

⁸ The J.P. Morgan Emerging Market Bond Index (EMBI) moved from 933.68 at the end of 2021, to 919.57 in 2021, 768.28 in 2022, 848.56 in 2023, and around 900 at the end of August 2024. The increase in the index implies higher prices.

Selling	Close: 08/23/24	Close: 08/30/24	Change
J\$/US\$1	\$158.48	\$158.03	-\$0.44
J\$/CDN\$1	\$116.78	\$115.84	-\$0.94
J\$/GBP£1	\$208.61	\$205.26	-\$3.35

Global Bond Prices

A slowdown in the labour market fuelled concerns over the health of the economy; however, data released last week showed the U.S. economy growing faster than initially thought in the second quarter amid strong consumer spending. Inflation edged higher in July, according to a measure favoured by the Federal Reserve as the central bank prepares to enact its first interest rate reduction in more than four years. The Commerce Department reported Friday that the personal consumption expenditures (PCE) price index rose 0.2% on the month and was up 2.5% from the same period a year ago, exactly in line with the Dow Jones consensus estimates. Excluding volatile food and energy prices, core PCE also increased 0.2% for the month and was up 2.6% from a year ago. Gross Domestic Product (GDP) increased at a 3.0% annualised rate last quarter, the Commerce Department's Bureau of Economic Analysis said in its second estimate of second-quarter GDP on Thursday. This was an upward revision from the 2.8% rate reported last month and above the 1.4% growth in the first quarter. According to Joseph Brusuelas, chief economist at RSM "The American economy is poised to grow at or above the long-term 1.8% rate as the Fed begins its rate-cutting campaign, which should put a floor under growth and hiring." The report comes with markets pricing in a 100% chance of a rate cut in September, with the only uncertainty being whether the Fed will take the incremental step of lowering benchmark rates by a quarter percentage point or being more aggressive and moving a half-point lower. Notably, there have been concerns over the economy's health following a jump in the unemployment rate to near a three-year high of 4.3% in July. The slowdown in the labour market, mostly driven by a step down in hiring rather than layoffs, has caught the attention of policymakers. Most economists believe the Fed will resist a half-percentage-point rate reduction as the economy continues to hum along and inflation remains above the central bank's 2% target, though price pressures continue to subside. Following Friday's release, market pricing tilted a bit more towards a 25 basis point, reduction, lowering the probability for a 50 basis point move to 30.5%, down from 34.0% on Thursday, according to the CME Group's FedWatch gauge.

The US 10-year Treasury yields increased ending the week at 3.909%, up from 3.797%. Emerging Market (EM) Bonds appeared to shrug off last week's data, with minimal price changes for certain EM government issues, including those from Bermuda, Jamaica, the Dominican Republic, and Trinidad and Tobago. That said, as interest rates fall, it is expected to enhance inflows into riskier assets, such as emerging-market sovereign bonds.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	105.50	5.15%	BUY

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
BACR (5.75%) 2026	BBB+/Stable	104.50	3.41%	BUY
BERMUD (3.72%) 2027	A2/Stable	101.25	3.17%	BUY
BERMUD (4.75%) 2029	A2/Stable	103.75	3.82%	BUY
CHTR (4.2%) 2028	Ba2/Stable	101.00	3.89%	BUY
CWCLN (6.875%) 2027	BB-/Stable	102.25	6.05%	BUY
DOMREP (5.5%) 2029	BB/Stable	104.00	4.50%	BUY
DOMREP (8.625%) 2027	BB/Stable	108.50	5.12%	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
GEPARK (5.5%) 2027	B+/Stable	98.25	6.30%	BUY
GM (5.4%) 2029	Baa2/Stable	100.75	5.07%	BUY
GS (5.798%) 2026	A2/Stable	103.80	3.74%	BUY
GS (3.85%) 2027	A2/Stable	101.50	3.19%	BUY
M (5.875%) 2030	BBB-/Stable	99.50	5.98%	BUY
NFLX (5.88%) 2028	A/Stable	109.75	3.36%	BUY
NFLX (4.875%) 2030	A/Stable	102.50	4.38%	BUY
NRG (3.875%) 2032	BB/Positive	94.50	4.76%	BUY
OPY (5.5%) 2025	Ba3/Stable	102.50	3.10%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	103.50	4.04%	BUY
PRMRPA (10.75%) 2028	B+/Positive	111.75	6.26%	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	6.99%	BUY
TRAJAM (5.75%) 2036	BB-/Positive	95.50	6.28%	BUY
TRITOB (4.50%) 2026	Ba2/Stable	102.25	3.28%	BUY

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
BANORT (5.75%) 2031	Baa2/Positive	96.25	1.74%	SELL
CSOLNO (6%) 2027	B+/Stable	13.75	242.27%	SELL
PEMEX (5.35%) 2028	B3/Negative	104.25	-3.31%	SELL
NFE (6.5%) 2026	BB-/Stable	103.50	-396.53%	SELL
NFE (6.75%) 2025	BB-/Stable	92.25	10.77%	SELL

The average yield for the BOJ's 30-day competitive price auction dipped to 7.61%, a decrease from last week's 7.99% and a significant drop from April's peak of 11.90% and 38 basis points below the yield in the prior week's auction. The next BOJ 30-day CD auction is scheduled for September 4, 2024.

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.25	4.62%
	2039	121.10	5.74%
	2045	120.90	6.09%

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

respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
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 moderately liquid. As of August 30, 2024, a total of J\$90.65Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). The aggregated closing current account balance decreased by J\$31.50Bn from J\$122.16Bn on August 23. There was one Bank of Jamaica (BOJ) intervention last week through the B-FXITT Programme, with a total of US\$40Mn to combat the depreciation of the JMD against the USD in the prior week.

The demand for money market instruments remains robust, as seen in the recent BOJ 30-Day CD auction on August 28, 2024, which was oversubscribed, with a bid-to-cover ratio of 1.85x. Despite this high demand, the weighted average yield continued its downward trajectory, indicating that investors are taking their cue from the recent reduction in the Central Bank's benchmark interest rate.

Dates to watch this week

■ International ■ Local

September 2024				
MON	TUE	WED	THUR	FRI
02	03	04	05	06
	CCC Dividend Payment Date (J\$1.9655 per share)	SEP Dividend Payment Date (J\$0.605 per share)	MGL Annual General Meeting	CAD Unemployment Rate (Aug)
		CAD BoC Interest Rate Decision		

Recommendations

Ticker	Closing Price (August 30, 2024)	P/E	Avg. Sector P/E	Current Recommendation
GK JA	\$73.59	9.1x	14.5x	BUY
INDIES JA	\$2.75	14.3x	14.3x	BUY
KEX JA	\$9.24	12.7x	14.9x	BUY
KW JA	\$28.45	12.7x	9.0x	BUY
SALF JA	\$3.85	16.7x	13.5x	SELL

Regional News

Tourism Boom In Barbados

Barbados is enjoying a record-breaking year for tourist arrivals, thanks in large part to the recently concluded ICC T20 Cricket World Cup and the popular Crop Over festival. Javon Griffith, president of the Barbados Hotel and Tourism Association (BHTA) posit noted at the association's quarterly media update that "Tourist arrivals are expected to surpass pre-pandemic levels in all markets. This is supported by the ICC World Cup, Crop Over, and increased airlift capacity into Barbados this year." He further noted that "The appetite for Barbados remains very strong, with early forward bookings from major source markets exceeding 2023 by 18%. "From January to June 2024, the island welcomed 381,997 stayover arrivals, a 15% increase from the 323,948 arrivals during the same period in 2023, the BHTA head said, quoting figures from the Barbados Statistical Service. Notably, arrivals from CARICOM countries increased by 16%, with 42,063 visitors between January and June. Canada and the United States also showed impressive growth, with 16 and 31% increases, respectively. The cruise sector has not been left behind in this tourism resurgence. Griffith revealed that cruise activity is projected to continue recovering from pandemic setbacks, aided by the return of summer cruise activity and an increase in cruise calls in the last quarter. From January to June 2024, Barbados welcomed 475,028 cruise passengers, compared to 434,565 for the same period in 2023. "As you would recall, we had no cruise ship arrivals between June to September 2023. This year, we have had regular visits from the Rhapsody of the Seas every Friday," he noted. Looking ahead, the island is set to benefit from a gradual increase in flights starting with the winter 2024-2025 flight schedules. British Airways and Virgin Atlantic will both double their London Heathrow to Barbados flights, while TUI will continue to service the destination with up to 99 flights a month from various UK cities. From the United States, JetBlue will triple its flights from Boston to Barbados, while American Airlines will resume daily flights from New York JFK. In an exciting development, Delta will return to Barbados after an eight-year hiatus, offering a daily service from Atlanta in winter.

Source ~ Barbados Today

Panama's Key Trade and Financial Hub Status Makes It

Well-Placed to Absorb Exogenous Shocks

Panama's dual function as a regional finance hub and a critical chokepoint in global merchandise trade means the economy will continue to channel foreign currency transactions and financial flows that comfortably exceed the size of its overall output. While seemingly excessive by other Emerging Market standards, Panama's external accounts reflect its central role in trade and finance in the Western Hemisphere and are unlikely to be destabilising in the foreseeable future. Key to this are stable financial institutions, transparent governance, a dollarized economy, and the geographic location of the Panama Canal. Following a sharp widening of the current account deficit in late 2023 due to an abrupt drop in Canal activity, Fitch Solutions expects the deficit to widen again to 4.8% of GDP in 2024, up from 4.5% in 2023, before narrowing to 3.4% in 2025. That said, Panama's external position will remain vulnerable to climatic changes, as well as external cyclical downturns, de-globalisation, and the challenges posed by coordinated crackdowns on tax havens in the longer term. Nevertheless, Panama has proven highly resilient in the face of such challenges in previous years and its high capacity to borrow externally and attract large quantities of foreign direct inflows (FDI) means the economy is well placed to continue adapting to changing climatic conditions.

Source ~ Fitch Solutions

International News

Unemployment Rate Is Now Fed's Undisputed Lodestar

Jerome Powell's Jackson Hole speech has turned Sept. 6 and Sept. 18 into the two most important dates for U.S. monetary policy in years, as events on both days center on the Fed's new guiding light: the unemployment rate. The first marks the release of the August non-farm payrolls report, and the second will see the Fed's much-anticipated interest rate decision and, just as crucially, its updated Summary of Economic Projections (SEP). Powell essentially made two pivots in Jackson Hole. The first, as expected, is his clear signaling that a rate cut is forthcoming. The second, perhaps less anticipated, is his equally clear emphasis that unemployment, not inflation, is now the number one determinant of upcoming policy decisions. However, Powell's warning that the Fed does "not seek or welcome further cooling in labor market conditions" basically means the current unemployment rate of 4.3% – which is still fairly low by historical standards – is now a "line in the sand" that, if crossed, will likely trigger a policy response. "The unemployment rate is now around 90% of the Fed's dual mandate, inflation is about 10%," said John

Silvia, founder of Dynamic Economic Strategy, adding that Powell's pivot to unemployment from inflation is remarkable considering the economy isn't in recession. There's more than one way of measuring the strength or otherwise of the labor market and, by extension, the economy. They include nominal job growth, the ebb and flow of the labor force, and one of the Fed's favorites since the COVID-19 pandemic: the JOLTS estimates of outsized quits and job openings. But for the public, markets at large and politicians, the unemployment rate offers the clearest picture of how well the labor market is holding up. Market participants are firmly pricing in a rate cut at the Fed's Sept. 18 meeting. Traders are currently pricing in a roughly 63.5% chance of a 25-basis-point rate cut next month, with 36.5% pricing in a 50-basis-point rate cut, according to the CME Group's FedWatch Tool.

Source ~ Reuters

US Second-Quarter Economic Growth Revised Higher on Consumer Spending

The U.S. economy grew faster than initially thought in the second quarter amid strong consumer spending, while corporate profits rebounded, which should help to sustain the expansion. Gross domestic product (GDP) increased at a 3.0% annualised rate last quarter, the Commerce Department's Bureau of Economic Analysis said in its second estimate of second-quarter GDP on Thursday. That was an upward revision from the 2.8% rate reported last month. The economy grew at a 1.4% pace in the first quarter. Economists polled by Reuters had forecast GDP would be unrevised at a 2.8% pace. Consumer spending, which accounts for more than two-thirds of the economy, increased at an upwardly revised 2.9% rate. It was previously reported to have grown at a 2.3% pace. This offset downgrades in business investment, exports, and private inventory investment. Spending is being supported in part by wage gains, but momentum is slowing as the labour market shifts into lower gear. Personal income increased by \$233.6Bn in the second quarter, a downward revision of \$4.0Bn from the previous estimate. Corporate profits, including inventory valuation and capital consumption adjustments, increased \$57.6Bn after declining by \$47.1Bn in the first quarter. Profits of domestic financial firms increased \$46.4Bn, while those of non-financial institutions rose \$29.2Bn, more than offsetting a \$18.0Bn decline in profits from the rest of the world. When measured from the income side, the economy grew at a 1.3% rate last quarter. Gross domestic income (GDI) increased at a 1.3% pace in the January-March quarter.

Source ~ Reuters

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