

Market Guide

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“The best way to measure your investing success is not by whether you’re beating the market but by whether you’ve put in place a financial plan and a behavioural discipline that are likely to get you where you want to go.” - Benjamin Graham

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Earnings Disappointments as Strategic Investments Sweep the Junior Market

June 1st marked the beginning of the 2025 Atlantic Hurricane Season, and we all need to assess our level of preparedness. Last year, eight hurricanes made landfall¹, and Hurricane Beryl made history as the earliest Category 5 hurricane ever recorded in the Atlantic on July 1st, 2024. The impact of hurricanes on Caribbean islands is generally more severe than on their mainland neighbours. As if to mimic Mother Nature, the last earnings season for Q1 2025 also saw a greater percentage of Junior Market companies experiencing financial turbulence than their Main Market counterparts. The Junior market was hit by strong headwinds and scattered thunderstorms, while its Main Market neighbours largely surfed the waves of one off-gains and improvements in their respective core business segments. Just as governments assess past damages and look to increase their resilience for future storms, this week, we will zero in on the Junior Market companies' Q1 2025 underperformance and what preparations these companies are making to weather future economic and financial storms.

While Main Market companies largely basked in the cool breeze and sunshine with an aggregate earnings jump for Q1 2025 (+77.2%), the performance of Junior Market companies was more subdued (+4.0%). Of note, three of the five Jr Market sectors were battered by headwinds, with aggregate earnings declines between 1.6% to 43.4% (See Table 1).

The declines in these Jr Market sectors were largely attributed to elevated costs, related to

expansion initiatives, and revenue declines in various companies. The Health/Tech (-43.3%) and Jr Energy Material and Industrial (Jr EMI; -23.7%) sectors recorded the steepest aggregate earnings contractions, while Jr. Market Financial firms contracted marginally (-1.6%). In Health/Tech, digital marketing company, One Great Studio Company Ltd. (1GS) led the downturn following cost pressures from its latest acquisition. 1GS's earnings swung from J\$10.0Mn a profit in Q1 2024 to a J\$13.0Mn loss, battered by a 42.0% storm surge in administrative expenses following its DRT Communications acquisition². This underperformance negated the (J\$13.70Mn; 108.4%) gain in earnings for diagnostic imaging company, Elite Diagnostic. Meanwhile, in the Jr EMI, Knutsford Express (KEX)³ was the primary drag on performance. KEX experienced a 54.9% (J\$60.84Mn) drop in earnings, owing to a 20.0% increase in operating costs tied to its ongoing fleet expansion. This expansion could increase capacity and potential to serve more routes, which should support bottom-line growth. Much like feeling the outer bands of a passing hurricane, the financial segment experienced milder turbulence culminating in an aggregate earnings contraction of 1.6%, albeit less severe than the Health Tech and Jr EMI sectors. Micro-finance company, Dolla Financial (DOLLA), posted a 16.7% drop in profit, impacted by the triple storms of interest expenses (+63.9%), credit provisions of J\$46.09Mn (+1,163.0%) and administrative costs totalling J\$84.56Mn (+57.3%). These increases arose from the aggressive scaling

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	332,712.82	-0.93%	-4.36%
Main Market Index	322,306.90	-0.78%	-4.02%
Select Index	7,787.74	-1.25%	-6.00%
Junior Market Index	3,424.18	-2.81%	-8.32%

WINNERS & LOSERS FOR THE WEEK ENDED JUNE 6, 2025

	\$ Change	% Change
JETCON	+\$0.19	+19.00%
MDS	+\$0.22	+16.06%
MTL	-\$3.54	-25.14%
OFF	-\$0.30	-17.54%

MARKET OVERVIEW

After a strong finish at the end of May, eight (8) of the nine (9) JSE indices fell for the first week in June. The JSE Combined Index fell by 0.93%, as 68 of the 127 traded stocks declined, 41 advanced, and 18 remained unchanged. The main decliners were the JSE USD Equities (-4.26%) and the JSE Junior Market (-2.81%) Indices. For the JSE USD Index, the week-over-week (WoW) dip was due to the decline in TransJamaican Highway Limited's (Ltd.'s) USD share price (TJHUSD: -6.85%) and, to a lesser extent, Productive Business Solutions Ltd. (PBS: -3.84%). For the JSE Junior Market, declines in Knutsford Express Ltd (KEX: -15.15%), Future Energy Source Company (FESCO: -6.23%), Main Event Entertainment Group Ltd (MEEG: -12.34%), and Jamaican Teas Ltd (JAMT: -8.27%) shares were the major drivers. Meanwhile, the JSE Cross-Listed Index (+0.88%) was the only index to advance, with Massy Holdings Ltd (Massy: +0.65%) driving the increase. There was no news to support the advancers or decliners, except for PBS, which announced on May 30, 2025, that the company's audited financial statements for the year ending December 31, 2024, had been delayed and would be made available on or before June 16, 2025. PBS's management noted that the delay was due to the finalisation of the audit process.

1 According to the Associated Press, the 2024 Atlantic hurricane season was exceptionally active, producing 18 named storms and 11 hurricanes—well above the average of 7 hurricanes per season. Eight hurricanes made landfall, impacting regions including the U.S., Bermuda, Cuba, the Dominican Republic, and Grenada.

2 One Great Studio Company Limited (1GS) announced its strategic acquisition of the business of DRT Communications, a leading public relations and media intelligence firm, for a total consideration of J\$115 million, which includes a J\$35 million performance-based earnout over 3 years.

3 A transportation and courier service provider.

of its loan portfolio and the continued buildout of its Ultra Financier subsidiary⁴. The performance of the sub-sector was, however, tempered by a 217.9% surge in earnings from MFS Capital Partners Ltd. (MFS)⁵. MFS' performance was driven by a sharp increase in revenue from FX trading activities as well as interest income & fees from its private credit portfolio, which ultimately resulted in only a marginal falloff for the segment.

While aggregate earnings performances were mixed across Junior Market Sectors, a clear pattern emerged: firms across the board are shoring up their foundations and reinvesting in their businesses, even at the expense of near-term profitability.

While Health/Tech, Jr EMI, and Financial Sectors weakened Jr Market earnings performance for Q1 2025, earnings growth from the Tourism (+16.0%) and Jr Market Manufacturing & Distribution (+5.7%) segments minimised the damage. Scale and efficiency positively impacted the aggregate earnings performance of the tourism companies. Express Catering Ltd. (ECL) posted a 68.3% year-over-year increase in net profit (+J\$113.35Mn), driven by a 17.4% reduction in direct costs and a modest 4.8% revenue uptick. This was supported by higher per-passenger spending and improved supply chain terms, even amid falling passenger count for the quarter. Margaritaville Turks Limited (MTL) benefited from a 52.0% surge in cruise passenger arrivals to a record 390,443, fueling a 33.4% increase in revenue to US\$2.54Mn. Though average spend per passenger dipped slightly, the scale effect more than offset the smaller spend. Furthermore, with operating expenses largely contained, net profit nearly doubled. In Manufacturing & Distribution, Future Energy Source Company Ltd. (FESCO) and Caribbean Flavours & Fragrances (CFF) emerged as top performers despite revenue headwinds. FESCO delivered a 117.3% profit surge to J\$106.68Mn, despite a 5.5% revenue decline, as it benefited from a 5.8% reduction in direct costs tied to lower international oil prices and an expansion in its liquefied petroleum gas (LPG) segment, FESGAS. CFF, meanwhile, recorded a 286.0% rise in net profit to J\$35.55Mn, powered by a 20.7% revenue growth. Its gross margins increased from 34.7% to 42.6% on the back of more favourable input costs and improved procurement strategies.

The Junior Market's Q1 2025 earnings season mirrored the early stirrings of the hurricane season, unpredictable and uneven, but with clear signs of

preparation. While aggregate earnings performances were mixed across Junior Market Sectors, a clear pattern emerged: firms across the board are shoring up their foundations and reinvesting in their businesses, even at the expense of near-term profitability. Despite different business models, the worst-hit Junior Market sectors showcased this trend, with Health/Tech, Jr. EMI, and Jr. Financial firms prioritising expansion over earnings. 1GS, KEX, and DOLLA all accepted short-term margin strain to future-proof their earnings. This observation was also further demonstrated by fuel distributor, Regency Petroleum Ltd. (RPL), whose profits fell by 73.4% amid infrastructure-related expenses at its Spanish Town station, an investment aimed at future growth. Likewise, despite outperforming this earnings season, Tourism and M&D stocks also demonstrated plans to sustain and build on their gains for future quarters. Alongside ECL, MTL, FESCO, and CFF, which all invested to strengthen competitiveness, companies like MAILPAC, Fontana and JamTeas are also reinforcing their businesses to weather the storms to come in future earnings seasons. MAILPAC, an e-commerce and retail player, increased revenue by 94.0% and net profit by 39.1%, but nearly doubled its operating costs, as its profits were washed away by a deluge of investment in its logistics and digital infrastructure to scale its e-commerce platform. Similarly pharmaceutical and distribution company, FTNA, delivered double-digit net profit growth (+10.6%), underpinned by forward-looking moves, including the Monarch Pharmacy acquisition and the launch of a luxury beauty line. While FTNA's moves were financed through a J\$650.0Mn bond that hiked its finance expenses, it laid the bedrock for future earnings growth. Jamaican Teas Ltd. (JamTeas) is also reinvesting, with machinery upgrades

at its Temple Hall facility to support the deepening of its export-driven growth strategy.

The broad-based reinvestment from Jr Market companies, whether from those bouncing back or weathering near-term strain, signals the Junior Market's continued efforts toward future-proofing earnings. While three of the five sub-sectors posted earnings declines, the earnings downturn from Health/Tech, Jr EMI, and Jr financial firms like 1GS, KEX, DOLLA, and RPL was not rooted in weakness, but in reinvestment. At the same time, outperformers such as ECL, MTL, FESCO, and CFF reinvested strong earnings into long-term capacity and efficiency. With both outperformers and underperformers investing in longer-term growth, there is potential for a more resilient and profitable shift in earnings for Junior Market companies in the earnings seasons ahead. However, just as every hurricane season comes with the risk of another storm, Junior Market companies, trotting the path to earnings growth, remain exposed to sudden gusty winds. Growth initiatives carry execution risks, and not all investments will deliver as expected. Whether it's integrating new acquisitions, expanding physical infrastructure, or rolling out new product lines, the path to sustained profitability is rarely smooth. Still, the current wave of reinvestment suggests that many Junior Market companies are not merely reacting to the storm – they're building stronger vessels to navigate turbulent economic and financial conditions that may come. If well-executed, these investments could translate into stronger, more resilient earnings ahead.

Junior Market Sector	CQ12024	CQ12025	YoY %
Jr. Financial	132,113	130,042	-1.6%
Jr. M&D	547,694	578,916	5.7%
Jr. EMI	150,911	115,131	-23.7%
Tourism	417,482	484,274	16.0%
Health/Tech	22,896	12,967	-43.4%
Jr Market Total	1,271,097	1,321,330	4.0%

Erratum: Our previous earnings story titled "Stock Market Premier League" inadvertently included Main Market entertainment stocks in the Junior Market calculations. We have since corrected these figures. The Main Market's aggregate earnings as of the story date increased by 77.2%, rather than the previously reported 80.4%, while Junior Market earnings grew by 4.0%, instead of the reported 24.9% decline. Notwithstanding this error, the essence of our Stock Market Premier League story remains intact.

⁴ As a subsidiary of Dolla, the company's main focus is asset-based lending backed by luxury assets. After recognising the growing needs of our clients and the market, the Board and Management have repositioned the Company as a premier private credit company.

⁵ MFS Capital Partners Limited (MFS) is a Jamaican company which specialises in investing in the equity of companies that show great potential through sale to private parties.

Foreign Exchange Market

For the week ending June 6, 2025, the Jamaican dollar (JMD) depreciated by 0.13%, with the USD selling rate to J\$160.34 on June 6, 2025. The depreciation reflects the absence of the BOJ's B-FXITT intervention, coupled with increasing demand from dealers for the USD. Unless the BOJ intervenes next week, the JMD is expected to continue depreciating.

Selling	Close: 30/05/25	Close: 06/06/25	Change
J\$/US\$1	\$160.12	\$160.34	\$0.21
J\$/CDN\$1	\$117.11	\$119.24	\$2.13
J\$/GBP£1	\$216.24	\$217.47	\$1.23

Global Bond Prices

Last week, the market processed data from the United States (U.S.) Bureau of Labour Statistics, which indicated a slight slowdown in the long-resilient labour market in May, despite the unemployment rate remaining unchanged. The U.S. economy added 139,000 nonfarm payrolls in May, exceeding economists' expectations of 126,000. However, this figure represented 8,000 fewer jobs than April's downward-revised figure of 147,000, amid uncertainty around the Trump administration's trade and tariff policy. Despite these developments, the unemployment rate stayed steady at 4.2% for the third consecutive month. However, this was primarily due to a 625,000 decline in the labour force, suggesting reduced confidence in the job market along with the likely impact of the Trump administration's immigration crackdowns.

Amid pessimism among some consumers and businesses in the U.S., President Donald Trump on Friday, June 6, 2025, reiterated his belief that Federal Reserve (Fed) Chair Jerome Powell has been too slow to lower borrowing costs. The President advocated for a full percentage point cut in interest rates. However, in May, the Fed maintained its policy rate in the 4.25%-4.50% range, where it has remained since December 2024. Furthermore, policymakers have since signalled they may keep rates unchanged for several more months as they await further clarity on how Trump's tariffs and other policies impact inflation and the labour market. Adding fuel to the fire, Trump announced a doubling of tariffs on steel and aluminium to 50%, effective June 4, 2025. Given these factors, financial markets expect the Fed to resume rate cuts in September, likely by a quarter-point reduction (51.8% probability according to the CME FedWatch Tool), following the latest subdued labour market data. Market expectations align with Fed policymakers' projections from March, which anticipated a total of 50 basis points (bps) of cuts this year.

Owing to the lukewarm outlook, U.S. Treasury demand dipped slightly week-over-week. The 10-year Treasury yield closed at 4.5% on June 6th, up from 4.4% the previous week as softer demand fuelled lower prices. On the other hand, Latin American and Caribbean bond prices experienced mostly positive gains and, by extension, lower yields. Bahamas, Bermuda, Barbados, Dominican Republic and Trinidad and

Tobago bonds ended the week with slight gains; however, Jamaican bond prices declined.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
BAHAMA (6.00%) 2028	BB-/Stable	101.00	5.67%	BUY
BAHAMA (6.95%) 2029	BB-/Stable	100.75	6.75%	BUY
BAHAMA (8.95%) 2032	BB-/Stable	108.50	7.42%	BUY
BAHAMA (6.63%) 2033	BB-/Stable	93.25	7.78%	BUY
BERMUD (4.75%) 2029	A2/Stable	103.50	3.72%	BUY
DOMREP (5.5%) 2029	BB/Stable	102.50	4.75%	BUY
DOMREP (8.625%) 2027	BB/Stable	107.75	4.23%	BUY
DOMREP (5.95%) 2027	BB/Stable	104.50	3.07%	BUY
DOMREP (6.95%) 2037	BB/Stable	104.25	6.43%	BUY
GM (5.40%) 2029	Baa2/Stable	104.25	4.31%	BUY
JAMAN (6.75%) 2028	BB-/Positive	107.25	4.05%	BUY
JAMAN (8.50%) 2036	BB-/Positive	117.50	6.23%	BUY
KINGAIR (6.75%) 2036	BB/Stable	101.75	6.53%	BUY
LTMCI (7.88%) 20230	BB/Stable	103.50	7.01%	BUY
MARGRO (6.404%) 2029	BBB-/Positive	105.50	4.99%	BUY
MINSUR (4.5%) 2031	BBB-/Stable	95.75	5.29%	BUY
NFLX (5.88%) 2028	A3/Positive	108.25	3.30%	BUY
NFLX (4.875%) 2030	A3/Positive	105.00	3.77%	BUY
NRG (3.88%) 2032	BB+/Stable	94.50	4.85%	BUY
NRG (6.00%) 2033	BB+/Stable	103.25	5.47%	BUY
NRG (6.25%) 2034	BB+/Stable	105.00	5.56%	BUY

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
POSWDL (7.875%) 2030 (NEW ISSUE)⁶	BB/Stable	99.80	7.90%	BUY
PYPL (2.85%) 2029	A-/Stable	97.00	3.61%	BUY
SFC (5.30%) 2028	BBB/Positive	102.50	4.38%	BUY
TPHLTT (9.00%) 2029	Ba3/Stable	105.75	7.37%	BUY
TRAJAM (5.75%) 2036	BB-/Positive	97.00	6.12%	BUY
NFE (6.50%) 2026	Caa1/Negative	63.25	48.44%	SELL
CSOLNO (6.00%) 2027	B+/Stable	16.75	611.68%	SELL
BANORT (5.75%) 2031	Baa2/Positive	99.75	1.28%	SELL

current balance amounted to J\$60.04Bn, marking a 5.8% decrease compared to the previous week.

Demand for money market instruments remains strong, as evidenced by the oversubscription in last week's Bank of Jamaica (BOJ) 30-day Certificate of Deposit (CD) Auction results. The average yield on the 30-day CD Auction inched up to 5.84% from 5.73% the previous week. Total bids amounted to J\$42.19Bn relative to the J\$37.00Bn issue size, implying a bid-to-offer ratio of 1.14x. While the previous week's 1.24x bid-to-offer was higher, the bid and offer amounts were also higher at J\$55.76Bn and J\$45.00Bn, respectively. The next auction date is set for June 11, 2025. The BOJ also conducted a 14-day Repurchase Operation with deposit-taking institutions for the provision of Jamaican dollar liquidity, in the amount of J\$1.20Bn. The auction was oversubscribed with J\$1.70Bn total bids and an average yield of 5.98%.

Additionally, the Government of Jamaica's (GOJ's) most recent 91-Day and 182-Day Treasury Bills (T-Bills) auction to finance its budgetary requirements was oversubscribed. The average yields for the respective tenors were 5.3098% and 5.3827%, down from 5.4668% and 5.4978%. The next auction of the Government of Jamaica's Treasury Bills is scheduled for Wednesday, July 9, 2025.

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.20	4.93%
	2039	116.15	6.15%
	2045	115.05	6.52%

*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.

Equity Corporate Actions

On June 5, 2025, Seprod Limited (Seprod) extended its takeover bid for up to 29.85% of A.S. Bryden & Sons Holdings Limited (ASBH) shares to June 9, 2025, 8:00am. The offer, launched on May 1, 2025, involves a share-for-share exchange, namely, 396.43 Seprod shares for every 1,000 ASBH shares, with Seprod aiming to acquire up to 447 million ASBH shares. Seprod, already owning 50.14%, seeks to increase its stake in ASBH to strengthen ties between the two companies and create a regionally integrated distribution platform benefiting customers and partners.

As of the release of this report, the extension period has expired and the offer is now closed.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
BDHR	2027	6.50%	100.35	8.02%
SJPC	2032	8.15%	102.50	8.37%
PBS	2025	8.85%	100.85	6.03%

Money Market

Last week, liquidity in the JMD money market declined, as measured by the aggregated current balances held by Deposit-Taking Institutions (DTIs). As at June 6, 2025, the total aggregate

⁶ Issuer- Port of Spain Waterfront Development Limited, Industry- Infrastructure, Type- Secured, Callable-Yes, Coupon Rate- 7.876%, Coupon Payment- Semi-annually, Maturity- August 19, 2040, Risk Profile - **Moderate**

Dates to watch this week

■ International ■ Local

June 2025				
MON	TUE	WED	THUR	FRI
9	10	11	12	13
NCBFG Dividend Payment Date (\$0.50 per share)		GHL Dividend Payment Date (TT\$0.21 per share)	HONBUN Dividend Payment Date (\$0.03 per share)	EPLY Dividend Payment Date (\$0.102 per share)
	U.K. Unemployment Rate (Apr)	U.S. CPI Data (May)	U.S. PPI Data (May) U.K. GDP (Apr)	

Recommendations

Ticker	Closing Price (June 9, 2025)	P/E	Avg. Sector P/E	Current Recommendation
CAR	\$15.79	10.8x	15.8x	BUY
GK	\$74.00	8.7x	11.5x	BUY
SVL	\$19.41	35.2x	35.2x	BUY
TJH	\$3.64	9.0x	19.0x	BUY
TJHUSD	\$0.0238	9.2x	14.2x	BUY

Additional Public Offer	Closing Price (June 9, 2025)	P/E	Avg. Sector P/E	Current Recommendation
TROPICAL	\$2.20	-	33.2x	PARTICIPATE (NEW!)

Regional News

Panama's Fiscal Position Looks Increasingly Fragile

There has been a significant weakening of Panama's fiscal accounts since the pandemic, with the headline deficit having widened from an average of 2.3% of GDP over 2015-2019 to around 7.0% as of 2024. Higher debt servicing costs can only account for a small share of this deterioration (0.8 percentage points (pp) of GDP), with the bulk instead explained by a sharp fall in revenue collection that appears to be a function of rising labour market informality and increased avoidance, facilitated by the introduction of special tax regimes that have complicated the existing system. A recent Organisation for Economic Co-operation and Development (OECD) investigation found that tax revenues accounted for just 11.9% of GDP in 2023 (a number that is estimated to have dropped by 0.3pp in 2024), the second-lowest share in the region, where the average stands closer to 21.3%.

Panama retains investment grade status for now, with Fitch Ratings the only major agency to have cut to junk (BB+, Moody's: Baa3, S&P: BBB-). However, markets have begun to move to price in fallen angel status, with spreads having widened markedly over the past two years. In response, the Mulino administration has changed its approach to debt management, avoiding the Eurobond market and instead relying heavily on bill issuance and loans from international lenders. This will help Panama avoid locking in higher borrowing costs now, but it has translated into a material deterioration in the maturity profile. Roughly US\$20Bn (or 20% of GDP) of debt will come due between 2025-to-2029, up from US\$12Bn over the same window a year prior. The government is simultaneously embarking on an ambitious fiscal consolidation programme, with the revised Fiscal Responsibility Law obliging the Mulino administration to narrow the deficit to below 4.0% this year and by an additional 0.5pp each subsequent year until 2029. The government's strategy for hitting these targets, however, is ambitious, ruling out significant tax reform and instead guiding that efforts to improve tax collection, focused largely on digitalisation, can boost revenues by 3.5% of GDP.

Source ~ Fitch Connect

Real GDP Growth Rebounds In 2025 for Brazil, Domestic Demand Solid

The Brazilian economy expanded by a solid 1.4% on a quarter-on-quarter basis in the first quarter (Q1) of

2025, after having effectively stagnated in Q4 2024, leaving the year-on-year real GDP growth rate at an above-trend 2.9%. While the data did surprise slightly to the downside of the latest consensus estimate (1.5%), this was an estimate that has been gradually increasing in recent weeks and stood at slightly below 1.0% at the end of the quarter itself. Examining the segmental breakdown, it was another record soybean harvest that helped to drive growth, with exports posting their biggest one-quarter gain since Q3 2023 (+2.9% q-o-q). However, the strength was reasonably broad-based. Solid real income growth contributed to a snapback in consumer spending after a surprisingly weak Q4 (+1.0% from -0.9%), while fixed investment jumped by 3.1% (Q4: +0.7%) as financial market volatility subsided notably at the beginning of the year. This strength in domestic demand translated into a surge in imports (+5.9%), which ultimately worked to cap headline growth in the quarter.

The Brazilian economy has held up remarkably well in recent months, even as the macro policy backdrop has turned notably less favourable. Monthly hard data for Q2 are consistent with the above trend, quarter-on-quarter expansion of roughly 0.6-0.7%, even before accounting for the commencement of production at the Mero Field using the floating production, storage, and offloading unit (FPSO), Alexandre de Gusmão, on May 24, 2025 that will boost exports in the quarter. Consequently, Fitch has revised upwards its forecast for full-year growth from 2.0% to 2.3%, reflecting the fact that the data surprised somewhat to the upside of expectations and given evidence that the economy has maintained solid momentum in recent months.

Source ~ Fitch Connect

International News

Canada's Q1 Economic Performance Prompts Upward GDP Revision; Risks Remain

The 2025 real GDP growth forecast for Canada has been revised upwards by Fitch Connect, reflecting a better-than-expected economic performance in the first quarter of 2025 (Q1 2025) and stronger projected growth in the United States (U.S.). Fitch now expects the Canadian economy to expand by 1.4% in 2025, an increase from the prior projection of 1.2%. Of note, as a major exporter to the U.S., with exports constituting approximately 21% of its GDP in 2025, Canada faces upside economic risks from stronger U.S. growth. However, the risks to the growth forecasts remain tilted to the downside. Uncertainty in labour market dynamics

may prompt households to bolster savings. A survey by the Bank of Canada (BoC) revealed that consumers' expectations of the likelihood of job loss within the next 12 months surged from 13.0% in Q4 2024 to 20.7% in Q1 2025, the highest level ever recorded. Business confidence surveys are also a reason why Fitch believes that growth risks remain on the downside. The surveys continue to indicate a broad-based decline in confidence regarding the future business environment in Q1 2025. Meanwhile, private sector activity contracted for the fifth consecutive month in April, with preliminary data for May indicating a sixth month of decline. The composite Purchasing Managers' Index fell to 41.7 in April from 42 in March.

US President Donald Trump's proposed policies could also trigger a fresh wave of inflation. If this occurs, the BoC might be compelled to either slow down its easing cycles or raise interest rates outright to combat inflation, which would negatively impact consumer spending and corporate investment. The Royal Bank of Canada estimates that approximately 2.4 million Canadian jobs are linked to sectors reliant on U.S. exports, representing 12% of the nation's total workforce. This underscores the risks of a weakening labour market. Nonetheless, provided there are no tariff-induced inflationary shocks for the remainder of 2025, the easing inflation will grant the BoC the flexibility to continue reducing interest rates in the upcoming quarters.

Source ~ Fitch Connect

UK Government to Set Out \$3 Trillion Make-Or-Break Spending Plan

British finance minister Rachel Reeves will divvy up more than £2Tn (US\$2.7Tn) of public money between her ministerial colleagues on Wednesday, making choices that will define what the year-old Labour government can achieve in the next four years. Prime Minister Keir Starmer and Reeves will have to pick between the demands of the public health service, which absorbs around 40% of day-to-day departmental spending, increased defence commitments and other priorities including policing, energy infrastructure, transport and housing. Labour has said that growth is its top priority and that its decisions led Britain to be the fastest-growing country in the Group of Seven in the first quarter of 2025. But the IMF expects U.K. growth to lag behind the United States and Canada in the years to come and be only slightly faster than the euro zone. The review comes at a tricky time for the government, which won a sweeping parliamentary majority in July 2024 but has since seen its popularity slide, falling behind Brexit campaigner Nigel Farage's

right-wing Reform Party in local council elections in England last month. Following that, citing improved public finances and growth, the government decided to at least partially restore heating subsidies for pensioners, which it had removed from millions shortly after the election, damaging its popularity. Reeves set out the contours of this week's spending plans at her first budget in October, so there should be no big surprises for financial markets overall, although individual sectors may have winners and losers. "Unless Rachel Reeves comes out and says, 'I am changing the spending envelope', the market should be broadly ambivalent," Deutsche Bank's chief U.K. economist, Sanjay Raja, said.

Day-to-day spending on public services is due to rise by an average of 1.2% a year on top of inflation between 2026-27 and 2028-29, while capital budgets will increase by an average of 1.3% in real terms through to 2029-30, according to estimates from the Institute for Fiscal Studies (IFS) think tank. Both rates of growth are much slower than in the current financial year, when investment spending is set to jump by 11.6% and current spending rises by 2.5%. The spending increases are unlikely to be shared out equally. Capital-intensive plans to raise defence spending to 2.5% of gross domestic product, announced by Starmer in February, mean other departments will see no real-terms increase in the pace of investment after this year, the IFS estimates. For day-to-day spending, increasing the health budget by 2 percentage points more than the average, as was typical when Labour was last in power before 2010, would mean real-terms cuts of 1% a year for other departments, the IFS said. The opposition Conservative Party said Reeves' spending since taking office was likely to increase debt interest costs by £80Bn by the time of the next election in 2029.

Source ~ Reuters

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