Barita

MAKING MONEY WORK FOR YOU.

Weekly Newsletter

Down The Elevator Up The Staircase

August 10th, 2020

Positioning after the Pandemic

LET US SHOW YOU HOW

Your portfolio can thrive even in this time.

ANALYST INSIGHT

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Down the Elevator, Up The Staircase

While this quip is generally used to describe the stock market, given the impact of COVID-19 on local and global economies, it is entirely appropriate: the economic fallout has been fast and sharp, and the rebound is likely to be slow and hard, you know, like climbing 100 flights of stairs. The deliberate shutdown of economies will likely lead to effects to be felt by many generations to come; the massive accumulation of debt is an example. But, to use a medical metaphor: like a critically ill patient, the economy was deliberately comatose, and now that it's on the mend, we assess the various complications that will arise from the 'medical procedure'. In other words, this week, we will examine 'what is the Health status of the economy?'

The Global Economy

Within the last few weeks, a great deal of economic data has been released from major economies. For the second quarter (Q2) of the calendar year, the US had a decrease in annualized GDP of 32.9%; the eurozone saw a decline in GDP of 12.7% while China saw growth of 3.2% in GDP. This mixed signal showcases how diligent and deliberate China was in there attempt to manage the local outbreak of COVID-19, as they have successfully reopened the domestic economy and restarted international trade flows. China's Purchasing Managers Index (PMI) was recorded at 52.8, which indicates expansion. Examining the US, they are having difficulties restarting their economy as a second wave has significantly hampered the ability reopen individual states. They are also in an election year which has been engulfed by ongoing unrest regarding social injustices among minorities within the nation. Last week the Nonfarm payroll data was released, which indicated the unemployment declined to 10.2% from 11.1% as there was a steady increase in hires predominantly in the leisure and hospitality space which was most affected. This despite the initial jobless claims increasing to 1.43 million, the 19th straight week this amount is above a million. What this mixed data shows is while there is employment in specific areas of the economy, individuals are still laid-off in other sectors of the economy. On the side of consumer spending, the two major political parties have been unable to agree on the next round of consumer stimulus bill. This bill is essential as the level of employment remains below pre-COVID levels, consumption will also be a week, and household consumption is an important component of GDP. The stalling of this bill leaves many households and individuals uncertain with regards to their ability to continue through this period of uncertainty as COVID-19 cases remain elevated with no end in sight.

Recently European Union (EU) leaders struck a historic €1.8 trillion package to help rebuild the eurozone bloc. These monies will be spent towards a recovery fund (€750 billion) while creating a new budget for 2021-2027 worth €1.1 trillion. These are necessary measures given the stagnant growth within the block and the stifled growth amidst economic lockdowns and the hampering of movements of capital within the borders. The largest economy of Germany saw a significant decline of 10.1% for Q2 as the automotive industry remains weak on the back of lower consumer spending. Germany's auto industry is one of the largest globally and is one of the backbone industries for the bloc.

The Domestic Economy

Jamaica has had its fair share of setbacks as the COVID-19 cases have begun increasing by large numbers, relative to single-digit daily increases. The double digit increases within the recent weeks occurred as Jamaica has reopened its borders to international, albeit under control procedures. Since reopening its borders, the central government has seen higher than budgeted revenues at J$122.65 billion (6.9% higher than budgeted). This has been supported significantly by an increase in Tax revenue and Non-Tax Revenue. They have been prudent regarding expenditure as they are 1.0% below budget at J$148.08 billion. The net effect is a fiscal deficit of J$25.42 billion, 27.1% better than the budgeted deficit of J$34.88 billion. While on the surface, this is positive, the potential spike in cases within the recent weeks threaten the viability of this to continue. If another lockdown is implemented, stricter curfews or tightened border controls are introduced, this could set back Jamaica further than expected. Examining the releases of companies across our local industry has shown mainly positive indications of these entities resilience during the lockdown period. Yet, market activity remains subdued as investors remain cautious about the current rising cases and the implications on the future growth of our listed companies over the final half of the year.

Is a Recovery Insight?

In the absence of a vaccine, closing borders indefinitely is not a solution. Continued expansionary fiscal and monetary policy is necessary to aid both households and businesses. This creates the right environment for both consumption and production. To that extent, the potential pace of the recovery remains in question as to the ongoing debates over the level of employment, the level of fiscal stimulus needed to be provided, adoption of remote working, increased or decreased border controls, the reestablishment of international supply chains and improving domestic supply chains are key factors impacting the recovery. Notwithstanding the aforementioned, uncertainty has reduced, what remains is the ability for nations to operate with COVID-19 without eradicating gains made thus far and pressuring their health infrastructures.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market continued it's slight decent, closing lower week-over-week. The Main Market Index declined by 0.42%, the JSE All Jamaican Composite Index declined by 0.43%, the JSE Junior Market Index rose by 0.62%, the JSE Combined Index decreased by 0.34%, and the JSE USD Equities Index increased by 3.61%.

The biggest winner this week is Caribbean Cream Limited rising by 35.36% to close at J$5.37. The biggest loser was Consolidated Bakeries Limited falling by 20.49% to close at J$1.36.

Year to date, all the major equity indexes are still down by high double digits (see, the table below); and three months since March, has been relatively flat.

Market volume amounted to 69,865,441 units valued at over $320,376,988.55. TransJamaican Highway Limited was the volume leader with 19,723,741 units (28.23%) followed by Wigton Windfarm Ordinary Shares with 15,784,302 units (22.59%) and 138 Student Living Jamaica Limited Variable Preference with 12,002,207 units (17.18%).

We are approaching another quarter-end for most companies who would have been affected by the lockdown between March 2020 to May 2020. On June 1st, 2020, there was a loosening of curfew orders and an expiration of Jamaica's stay-at-home orders. While Jamaica still operates under the Disaster Risk Management Act, there has been some life and normalcy returning to business operators and consumers.

The All Jamaica Consumer Price index for June 2020 was 105.2, indicating an inflation rate of 1.4%. This increase was primarily due to a 3.6% increase in the Consumer Price Index (more specifically the food and non-alcoholic beverage).

However, the increases in inflation were tempered by a decline in the divisions; housing, water, electricity, gas and other fuels. Transportation also declines by 0.1%, which is expected due to the widespread practice of remote work amongst corporations.

Jamaica's imports for January to April 2020 decreased by 23.1% amounting to US$1.6 million compared to US$2.2 million spent for the corresponding period in 2019. This decline in imports was again a result of the impact of COVID-19 and the lockdown measures imposed to contain

Index	7/8/2020	31/7/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	368,853.34	370,421.97	509,916.44	-0.42%	-27.66%
JSE Junior Market	2,606.15	2,590.03	3,348.97	0.62%	-22.18%
JSE Combined Market	367,407.83	368,678.82	505,253.98	-0.34%	-27.28%
JSE USD Equities Market	192.87	186.15	226.23	3.61%	-14.75%

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INTERNATIONAL DEVELOPMENTS

For the week ended Friday, the US stock market recorded solid gains for the week. The tech-heavy Nasdaq Composite Index rallied 2.14% and in return lifted the S&P 500 by 2.45%, within approximately 1.2% of its February record high.

Last week's economic calendar seemed to play some role in supporting markets with the July factory orders rising more than expected. Also, the labour market data provided positive sentiment as 1.2 million Americans filed weekly jobless claims which marked the lowest level since the onslaught of the COVID-19 pandemic.

Investors kept a close eye out for any information regarding the new fiscal stimulus package; however, no details were provided. Notably, on Wednesday markets reacted positively to 16 Republican senators' announcement of a new US$25 billion in aid for the U.S. airline industry.

The yield on the benchmark 10-year Treasury note touched a new five-month low on Thursday before increasing on Friday following the jobs report from the Labor Department, leaving it modestly higher for the week. Driven by strong demand, the broad municipal market posted gains and outperformed Treasuries by a wide margin through most of the week. With short-term yields near all-time lows, many investors continued to look for opportunities in longer-maturity municipals. https://www.troweprice.com/personal-investing/planning-and-research/t-rowe-price-insights/markets/global-markets-weekly-update.html#US

European shares rose on signs that an economic recovery is on its way. However, this was tempered because of the tension between the U.S and China and fears that Europe could see a spike in cases.

Mainland Chinese markets rallied after data lifted confidence in the economic recovery. The large-cap CSI 300 Index and benchmark Shanghai Composite Index each posted solid gains, even after declining on Friday on news that the Trump administration tightened restrictions on Chinese social media networks TikTok and WeChat in the U.S. In another sign of the growing tech rift between the U.S. and China, San Jose-based video conferencing company Zoom, which gained popularity during the pandemic, said that it would halt direct sales to China and only provide video conferencing services through third-party partners. https://www.troweprice.com/personal-investing/planning-and-research/t-rowe-price-insights/markets/global-markets-weekly-update.html#US

Following a steep decline at the end of July, Japanese stocks rallied in the first week of August. The Nikkei 225 Stock Average advanced 620 points (2.9%) and closed at 22,329.94. The widely watched market benchmark has returned -5.6% for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, also posted strong gains. The yen was little changed over the week and remained below JPY 106 per U.S. dollar. https://www.troweprice.com/personal-investing/planning-and-research/t-rowe-price-insights/markets/global-markets-weekly-

Index	7/8/2020	31/7/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	27,433.48	26,428.32	28,462.14	3.80%	-3.61%
S&P 500	3,351.28	3,271.12	3,234.85	2.45%	3.60%
NASDAQ 100	11,139.39	10,905.88	8,733.07	2.14%	27.55%
FTSE 100	6,032.18	5,897.76	7,542.44	2.28%	-20.02%
Euro Stoxx 50	3,252.65	3,174.32	3,748.47	2.47%	-13.23%

Local Economic Conditions

USD Foreign Exchange Market

- The Jamaican Dollar depreciated against all major currencies except the pound last week. Our local currency depreciated 0.83% against the U.S. Dollar week on week to settle at $149.23 as at close of trade Friday, relative to J$148.00 per US$1.00 at the end of the prior closed the period at 12.56%.

- Since the outbreak of the COVID-19, the Bank of Jamaica (BOJ) has been proactive in providing adequate liquidity support to our local institutions. However, this has been difficult especially seeing that manufacturers and importers have been demanding additional foreign exchange to purchase raw materials to carry out their business in preparations for the upcoming hurricane season, as well as market players engaging in precautionary purchasing.

- For the week ended 07 August 2020, no FX Swap applications were received.

- Additionally, no swaps matured via this arrangement this week. The total outstanding under the BOJ FX Swap Arrangement is USD73.00 million.

Currency Pair	7/8/2020	31/7/2020	31/12/2019	W/W	Year-to-Date
JMD: USD	149.23	148.00	132.57	-0.83%	-12.56%
JMD:CAD	112.34	111.62	100.70	-0.64%	-11.56%
JMD:GBP	193.61	195.00	170.64	0.71%	-13.46%

Unit Trust Performance

- The Money Market Fund increased 0.56% week-on-week, the FX Bond Portfolio increased 0.12% in value, the F.X. Growth Portfolio increased by 2.37% in value, and the Real Estate Portfolio decreased 1.78% in value. The Capital Growth Fund increased by 0.852 % week over week.

- Barita's Collective Investment Schemes ("CIS") offer the opportunity for investors to remain invested in the market at this delicate stage of the market cycle; moreover, there is a diversification benefit and opportunity to have a professional portfolio manager make the best-in-class professional judgements on your behalf.

- The F.X. Growth Fund, which is benchmarked against the S&P 500, has been performing well given it’s 2.75% year to date performance. This fund helps investors to gain exposure to the U.S. equities market, without taking on the risk of directly investing in a single company.

- The Capital Growth Fund suffered the same fate as our local equity market but remains above the year to date performance of the combined index. This is as attractive as securities were also oversold during the March sell-off and represented an attractive entry point to be capitalized on. The FX Bond Portfolio remains an attractive fixed-income portfolio, especially taking into consideration the large retreat from emerging market (E.M.) securities. With investors seeking "safe haven" in a more developed market (D.M.) securities and essentially selling down their positions in E.M. securities, opportunities were exposed for our fund managers to capitalize on.

“The fool wonders, the wise man asks”– Benjamin Disraeli

Unit Trust Fund	7/8/2020	29/7/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	76.843	76.19	0.852%	-20.61%	-19.36%	-
Money Market	14.7038	14.6221	0.56%	2.35%	3.09%	1.93%
Income Portfolio	100.00	100.00	-	-	-	2.32%
FX Bond Portfolio (US$)	1.3019	1.3003	0.12%	-3.00%	-0.04%	1.99%
Real Estate Portfolio	6,129.26	6,240.35	-1.78%	19.14%	19.83%	-
FX Growth Portfolio	0.9201	0.8988	2.37%	2.72%	8.54%	-

CONCLUSION

- The All Jamaica Consumer Price index for June 2020 was 105.2, indicating an inflation rate of 1.4%. This increase was primarily due to a 3.6% increase in the Consumer Price Index (more specifically the food and non-alcoholic beverage).

- However, the increases in inflation were tempered by a decline in the divisions; housing, water, electricity, gas and other fuels. Transportation also declined by 0.1,% which is expected due to remote working amongst corporations.

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"The stock market is a device for transferring money from the impatient to the patient"– Warren Buffet