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Weekly Newsletter

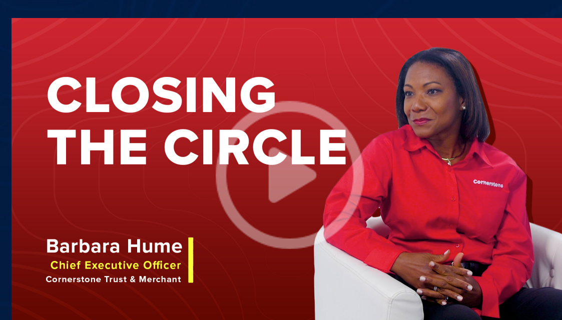
Pressed To The Wall But Fighting Back

August 17th, 2020

Positioning after the Pandemic

LET US SHOW YOU HOW

Your portfolio can thrive even in this time.



ANALYST INSIGHT

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Pressed To The Wall, But Fighting Back

We take creative liberty with Claude McKay's epic poem, 'If We Must Die', to colour Jamaica's efforts at fighting COVID-19, an 'invisible enemy' that has wounded our economy and, have seemingly driven a paralyzing fear into many investors. As we all know, until a vaccine is found, COVID-19 will continue to cast a shadow of uncertainty over the economy, and that is likely to result in many investors choosing to not re-enter risky-asset markets, or even businesses deciding against capital expansion plans. Our view is that Jamaica's macroeconomic conditions entering the crisis, provide an important buffer, which is likely to enable the country to recover reasonably rapidly when compared to other periods of economic shock.

COVID-19 is set to cost Jamaica approximately 5.1% of GDP in 2020, which is substantially lower than the cost of the local financial crisis in 1996-1997 that saw approximately 35%-40% of GDP being wiped out, according to IMF data. Importantly, and not many people know that after the crisis, the Jamaican equities market almost quadrupled in the ensuing period with a multiple expansion moving from approximately 6x-9x to approximately 15x. While the nature of the financial crisis is not yet fully comparable to that of COVID-19 shock, since the latter continues to unravel, the expectation is that Jamaica is likely to bounce back quicker given the initial set of macroeconomic conditions at the onset of virus-crisis. Some of those essential shock-absorbing-macro conditions include:

- Low single-digit current account deficit
- Historic levels of net international reserves (in excess of US$3 billion)
- Record low unemployment and poverty levels
- Debt/GDP ratio substantially below 100%
- The entrenchment of economic governance (Fiscal Rule 2014; substantially independent Central Bank)

Jamaica's macroeconomic transformation has merely slowed, it has not stalled, neither has it changed course. And, this is a critical point, as I recall the former Local IMF Resident Representative's explanation for Jamaica's economic transformation and how that has positioned Jamaica favourably in the eyes of international investors: Dr Ngouana noted that during turbulent times investors are pickier and are likely to choose investment destinations with 'their house in order'. In that vein, he believes Jamaica's macroeconomic transformation has three essential elements that endear investors to the sovereign:

1. Ownership
2. Commitment
3. Strength of the policy framework

Perhaps in another instalment, we could discuss those elements. But our view is that the international investment community continues to believe this narrative that Jamaica is committed to building and maintaining a predictable macroeconomic environment; that is if the JAMAN bond yields are an index of those sentiments. Importantly too, the Government has introduced a few social spend initiatives to assist Jamaicans, including, back to school support through the PATH program.

Our thesis is that Jamaica does face a challenging path to recovery and rebound, but the initial set of macroeconomic conditions, coupled with the extraordinary level of fiscal and monetary policy initiatives in crucial developed economies such as the USA and the European Union, suggest Jamaica will rebound much quicker from this sharp contraction relative to the experience coming out the 2008-2009 Global Financial Crisis. Against this background, investors who can buy and hold (that is not necessarily marked to market) should be picking good assets, including local equities at the prevailing depressed prices; overtime these assets are likely to grow into their valuations as economies begin their rebound.

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 marginally advanced, the JSE All Jamaican Composite Index declined by 0.01%, the JSE Junior Market Index declined by 0.24%, the JSE Combined Index decreased by 0.01%, and the JSE USD Equities Index increased by 2.12%.

The biggest winner this week is 138 Student Living Jamaica Limited rising by 19.52% to close at J$6.98. The biggest loser was Community & Workers of Jamaica CCU Deferred Share falling by 31.23% to close at J$218.

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 112,955,397 units valued at over $574,992,342.41. WIGTON Windfarm Limited Ordinary Shares was the volume leader with 41,249,194 units (36.52%) followed by Sagicor Select Funds Limited Manufacturing & Distribution with 17,147,943 units (15.18%) and Mailpac Group Limited with 7,065,219 units (6.25%) .

There has been an increase in financial released for the quarter ending June. This would have been the quarter where 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.

"An investment in knowledge pays the best interest." – Benjamin Franklin

Index	14/8/2020	7/8/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	368,870.63	368,853.34	509,916.44	0.004%	-27.66%
JSE Junior Market	2,599.86	2,606.15	3,348.97	-0.24%	-22.37%
JSE Combined Market	367,356.38	367,407.83	505,253.98	-0.01%	-27.29%
JSE USD Equities Market	188.78	192.87	226.23	-2.12%	-16.55%

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INTERNATIONAL DEVELOPMENTS

With no clear vaccine in sight, the current pandemic continues to be stapled in the minds of investors. The S&P 500 has returned 4.40% on a year to date basis, but the level of volatility throughout the weeks makes investor sentiment still topsy-turvy. This week the Federal Reserve released their increased buying activities within the fixed income space while also providing additional support to the main street.

In July the FED completed similar level of buying activities mirroring early June at the beginning of the FED's purchase program. As at July, the total value of holdings under the central bank's secondary market credit facility rose to just over $12 billion, more than $2.5 billion above the total for the same period a month ago.

Though the Main Street initiative has the capacity for $600 billion in loans, the first month saw just 13 companies gain approval, with a total value of just over $92 million. That has come amid criticism that the standards are unattractive to both borrowers and lenders, despite the Fed reporting that it formulated the program after feedback from thousands of sources.

https://www.cnbc.com/2020/08/10/the-fed-bought-more-blue-chip-and-junk-bonds-and-has-started-making-main-street-loans.html

Hong Kong's government downgraded its full-year economic forecast on Friday after a recent flare up in coronavirus cases threatened to further derail the city's economy.

The government now expects the city's economy to shrink by between 6% and 8% in 2020, compared to its previous projection for a contraction of between 4% and 7%. https://www.cnbc.com/2020/08/14/hong-kong-releases-second-quarter-2020-gdp-data-economic-updates.html

As Latin America continues to battle the coronavirus outbreak, some economies in the region could see a "record-breaking contraction" not seen since World War II, according to investment bank Goldman Sachs.

Latin America and the Caribbean have become a new global epicenter of the pandemic, and the United Nations warned several countries in the region are "now among those with the highest per capita infection rates worldwide." https://www.cnbc.com/2020/08/13/argentina-mexico-and-peru-likely-to-see-double-digit-contractions-goldman.html

Index	14/8/2020	7/8/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	27,931.02	27,433.48	28,462.14	1.81%	-2.13%
S&P 500	3,372.85	3,351.28	3,234.85	0.64%	4.40%
NASDAQ 100	11,164.45	11,139.39	8,733.07	0.22%	27.84%
FTSE 100	6,090.04	6,032.18	7,542.44	0.96%	-19.26%
Euro Stoxx 50	3,305.05	3,252.65	3,748.47	1.61%	-11.75%

Local Economic Conditions

USD Foreign Exchange Market

- The Jamaican Dollar depreciated against all major currencies last week. Our local currency depreciated 0.74% against the U.S. Dollar week on week to settle at $150.34 as at close of trade Friday, relative to J$149.23 per US$1.00 at the end of the prior closed the period at 13.54%.

- 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 14 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	14/8/20	7/8/20	31/12/19	W/W	Year-to-Date
JMD: USD	150.34	149.23	132.57	-0.74%	-13.54%
JMD:CAD	114.41	112.34	100.70	-1.84%	-13.61%
JMD:GBP	198.05	193.61	170.64	2.29%	-16.06%

Unit Trust Performance

- The Money Market Fund increased 0.034% week-on-week, the FX Bond Portfolio increased 0.092% in value, the F.X. Growth Portfolio increased by 0.685% in value, and the Real Estate Portfolio increased by 0.342% in value. The Capital Growth Fund increased by 0.241 % 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 3.43% 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

CONCLUSION

Unit Trust Fund	14/8/2020	7/8/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	77.0280	76.843	0.241%	-20.42%	-18.13%	-
Money Market	14.7088	14.7038	0.034%	2.39%	3.17%	1.90%
Income Portfolio	100.00	100.00	-	-	-	2.45%
FX Bond Portfolio (US$)	1.3031	1.3019	0.092%	-2.91%	-0.05%	1.90%
Real Estate Portfolio	6,150.20	6,129.26	0.342%	19.54%	12.98%	-
FX Growth Portfolio	0.9264	0.9201	0.685%	3.43%	12.07%	-

- In July the FED completed similar level of buying activities mirroring early June at the beginning of the FED's buying program. As at July, the total vale of holdings under the central bank's secondary market credit facility rose to just over $12 billion, more than $2.5 billion above the total for the same period a month ago.

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