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Trust The Recovery: What to Expect for The Year Ahead

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ANALYST INSIGHT

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Trust The Recovery: What to Expect for The Year Ahead

It is important to note that the social and economic uncertainties resulting from the onset of the COVID-19 pandemic won't suddenly subside with the end of calendar year 2020. However, from an investment perspective, we believe that 2021 could offer a welcome change to what has been an unforgettable year. We have now transitioned to an expansion phase in our current economic cycle. Investors should note that despite the unprecedented event that occurred in 2020, this pattern has played out before. In 2010, investors questioned the rally following the 2008 crisis but we now know that period marked the start of a long bull market. The lesson to be learned from 2010 is that the cycle usually wins and it is imperative that investors position themselves to take advantage of depressed asset prices. Markets will still have to cope with uncertainties, including whether the U.S. Senate the elections in early January will lead to a unified government or keep the current status of a divided government.

Global and Local Earnings expected to rise

According to Morgan Stanley's Strategists, despite the rally in the US stock market they expect 25% to 30% earnings growth across major equities markets and significant declines in corporate leverage. They believe investors should overweight equities and credit vs government bonds and cash, in addition to positioning for U.S. dollar weakness. Our local markets major equity indexes are still down by high double digits, however, with the development of a vaccine and the reopening of businesses, we expect company's earnings to gradually rebound.

Has Markets Priced in expected earnings improvements?

For our local market, the short answer is no. COVID-19 cases and geopolitical uncertainty appear to be muting investor sentiment. As we have stated in our previous articles , the Jamaica Stock Exchange (JSE) is still in bear-market territory, meaning the JSE is still down by over 20%. Hence there lies an opportunity to capitalize on the current bear market (please see Investment Playbook for such opportunities). Unfortunately, most investors will end up buying when the market is rising in an effort not to miss the "winnings". However, it is imperative that investors use this opportunity to build out their portfolios.

Fixed Income Market

Throughout 2020 Corporations ran to the bond markets at an unprecedented pace in order to have a strong liquid position in case things got worse. However, as the economic and earnings outlook improve, many issuers could use this cash to pay down debt and improve their credit ratings. For this reason, investors should take a look at high-yield over investment-grade corporates across all regions, supported by the view that, as credit spreads tighten, excess returns will match or exceed historical averages.

Other Asset Classes

Most Commodity prices recovered in the third quarter of 2020 following steep declines after the coronavirus pandemic. Crude oil prices have doubled since April as a result of supply cuts but remain lower than their pre-pandemic levels. Metal prices recovered mainly due to increase in China's industrial activity. According to World Bank Group, Oil prices are expected to average $44/bbl in 2021, up from an estimated $41/bbl in 2020. Metal and agricultural prices are projected to see modest gains of 2% and 1%, respectively, in 2021.

Given the vast amount of underlying opportunities remaining as we approach the new year, one of the best means of capitalizing on them is through unit trust products while the market is still down. Barita's suite of Unit Trust products, namely FX Bond Fund, Capital Growth Fund, FX Growth Fund, Money Market Fund, And Income Portfolio allow investors to gain exposures to these opportunities at a much lower cost versus direct exposure to individual securities, thereby benefiting from diversification and the guidance of certified portfolio managers. As we approach the future, being positioned in these funds is the best way to capitalize on the current opportunities today in preparation for tomorrow.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market closed higher week-over-week. The Main Market Index declined by -0.26%, the JSE All Jamaican Composite Index decreased by -0.32%, the JSE Junior Market Index declined by -0.70%, the JSE Combined Index decreased by 0.29%, and the JSE USD Equities Index increased by 0.44%.

Consolidated Bakeries was the largest gainer, rising by 21.70% to close at J$1.48. The biggest loser was K.L.E Group Limited falling by -31.03% to close at J$1.00.

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.

Overall Market activity as a Friday resulted from trading in 79 stocks of which 33 advanced, 37 declined and 9 traded firm.

Market volume amounted to 29,800,606 units valued at over $1,193,799,557.98. Barita Investments Limited was the volume leader with 12,109,602 units (40.64%) followed by TransJamaican Highway Limited with 8,777,012 units (29.45%) and Sterling Investments Limited with 1,439,187 units (4.83%) .

Despite the tourism sector performing at lower outputs and schools remaining closed, Honey Bun Limited (HONBUN) managed to grow its sales and revenue during the COVID-19 period to deliver their highest net profit to date, which grew by six per cent to $166.7 million for the 2020 financial year (FY). http://www.jamaicaobserver.com/business-report/honey-bun-sales-profits-grow-during-covid-19_209117?profile=1056

With less than a month to go until their financial year (FY) comes to a close, Caribbean Flavours and Fragrances (CFF) is on track to record its best performance in its 19-year history. http://www.jamaicaobserver.com/business-report/caribbean-flavours-and-fragrances-on-track-for-record-breaking-year-company-exploring-ways-of-using-more-agricultural-products-in-fragrance-lines_209104?profile=1056

SSL Venture Capital has chalked up a 220 per cent growth in net losses for the financial year ended June 30, 2020. http://www.jamaicaobserver.com/sunday-finance/ssl-venture-capital-sees-big-growth-in-net-losses-entity-severely-impacted-by-covid-19_209220?profile=1056

Index	4/12/2020	27/11/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	396,423.72	397,474.41	509,916.44	-0.26%	-22.26%
JSE Junior Market	2,496.22	2,513.83	3,348.97	-0.70%	-25.46%
JSE Combined Market	391,611.75	392,766.93	505,253.98	-0.29%	-22.49%
JSE USD Equities Market	188.75	187.92	226.23	0.44%	-16.57%

INTERNATIONAL DEVELOPMENTS

The U.S. trade deficit widened 1.7% in October to $63.1 billion. The politically sensitive gap in the trade of goods with China and Mexico grew.

The gap between the goods and services the United States sold and what it bought abroad rose from $62.1 billion in September, the Commerce Department reported Friday. Exports rose 2.2% to $182 billion, led by sales of aircraft engines. Imports increased 2.1% to $245.1 billion on an uptick in shipments of auto parts.

The deficit in the trade of goods with China rose 9% to $26.5 billion and the gap with Mexico rose 10% to $11.8 billion.

So far this year, the overall gap in the trade of goods and services with the rest of the world has risen to $536.7 billion, up 9.5% from January-October 2019.

President Donald Trump, who vowed to reduce the trade deficit, has imposed tariffs on foreign steel, aluminum and on $360 billion in Chinese products. It is unclear how much of Trump's aggressive trade policies will be retained by President-elect Joe Biden...

https://www.cnbc.com/2020/12/04/us-trade-deficit-widens-by-1point7percent-to-63point1-billion-in-october.html

Nonfarm payrolls increased by just 245,000 in November, well below Wall Street estimates as rising coronavirus cases coincided with a considerable slowdown in hiring.

Economists surveyed by Dow Jones had been looking for 440,000 and the jobless rate to decrease to 6.7% from 6.9% in October.

The unemployment rate met expectations, though it fell along with a drop in the labor force participation rate to 61.5%. A more encompassing measure of joblessness edged lower to 12% while the number of Americans outside the labor force remains just above 100 million.
https://www.cnbc.com/2020/12/04/jobs-report-november-2020.html

In the months since the U.S. labor market shed roughly 22.2 million jobs at the start of the coronavirus recession, some 10 million roles still have not recovered as the virus drags on and a host of stimulus policies intended to keep Americans housed, fed and able to meet essential needs expire in three weeks.

https://www.cnbc.com/2020/12/03/extending-pandemic-unemployment-benefits-could-save-5point1-million-jobs.html

Index	4/12/2020	27/11/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	30,218.26	29,910.37	28,538.44	1.03%	5.89%
S&P 500	3,699.12	3,638.35	3,230.78	1.67%	14.50%
NASDAQ 100	12,528.48	12,258.21	8,733.07	2.20%	43.46%
FTSE 100	6,550.23	6,367.58	7,542.44	2.87%	-13.16%
Euro Stoxx 50	3,539.27	3,527.79	3,748.47	0.33%	-5.58%

Local Economic Conditions

USD Foreign Exchange Market

- Our local currency appreciated by 1.37% against the U.S. Dollar week on week to settle at $144.99 as at close of trade Friday, relative to $146.98 per US$1.00 at the end of the prior. Year to date depreciation has been -8.57%.

- To aid in the liquidity in the domestic market since the onset of the pandemic, the Bank of Jamaica (BOJ) reduced the Jamaica dollar and foreign currency cash reserve requirement cash reserve requirements of Deposit-Taking Institutions, instituted bond buying programmge for GOJ and BOJ securities and instituted special repurchase facility for credit unions.

- It is estimated that collectively the BOJ has injected over J$57 billion into the market to allow for adequate functioning of the foreign exchange market. The BOJ also commissioned a Foreign Exchange Swap Arrangement which has been heavily used by authorized dealers (ADs) as a means of obtaining much coveted US dollar.

Currency Pair	4/12/2020	27/11/2020	31/12/2019	Week/Week	Year-to-Date
JMD: USD	145.00	146.99	132.57	1.35%	-9.37%
JMD:CAD	112.58	112.84	100.70	0.24%	-11.80%
JMD:GBP	196.10	196.37	170.64	0.14%	-14.92%

Unit Trust Performance

- The Money Market Fund increased 3.08% year to date (YTD), the FX Bond Portfolio produced a yield of 2.15%, the F.X. Growth Portfolio increased by 8.80% year to date, and the Real Estate Portfolio increased by 5.47% YTD. The Capital Growth Fund declined by -14.30% YTD compared to the JSE Combined Index which declined by -22.39% over the same period.

- 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 Portfolio, which is benchmarked against the S&P 500, has appreciated by 8.80% year to date relative to S&P 500's performance of 14.50% . 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 sold significantly 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.

"Given a 10% chance of a 100x payoff, you should take the bet every time"– Jeff Bezos

CONCLUSION

Unit Trust Fund	2/12/2020	25/11/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	82.945	82.973	-0.03%	-14.30%	-9.71%	-
Money Market	14.8082	14.8217	-0.09%	3.08%	3.18%	2.12%
Income Portfolio	100.00	100.00	-	-	-	1.80%
FX Bond Portfolio (US$)	1.3290	1.3254	0.27%	-0.98%	-0.23%	2.15%
Real Estate Portfolio	5,426.07	4,829.15	12.36%	5.47%	3.27%	-
FX Growth Portfolio	0.9745	0.9694	0.53%	8.80%	12.01%	-

- The biggest lesson from 2020 is that technology is here to stay, the quicker you are the accept this newfound truth, the better position you will be to adapt to the future. Businesses that had integrated technology into their products have been the primary benefactors during this pandemic.

- This trend is here to stay and entities that are technology based have add access to higher levels of liquidity both from the bond market and the private markets. This is evidenced by telecommunications, consumer products and high technology being the industries that raised the most amount of debt during the recovery period.

- Global debt levels, both sovereign and corporate, approaching a historical US$227 trillion. Among developed nations, debt surged above 432% of GDP in the Q3, a 50 basis points increase from 2019. In emerging markets, debt levels rose to over 248% of GDP, with Lebanon, China, Malaysia and Turkey experiencing the biggest rises in non-financial-sector debt.

- Given the vast number of underlying opportunities remaining as we approach the new year, the best means of capitalizing on them is through unit trust products. Barita's suite of Unit Trust products, namely **FX Bond Fund, Capital Growth Fund, FX Growth Fund, Money Market Fund, And Income Portfolio** allows investors to gain exposures to these opportunities at much lower cost versus direct exposure, benefit from diversification and the guidance of certified portfolio managers who have the wit and the capabilities to realize such opportunities.

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Investment Playbook

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Equities

Stock Ticket	Stock Information (As at November 20, 2020)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 25.55X P/B: 4.35X Price: J$16.10 Div Yield: 0.56%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors Wisynco. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, Wisynco's business will thrive in this environment.
LASM Lasco Manufacturing	P/E: 14.05X P/B: 2.23X Price: J$3.89 Div Yield: 0.0%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors LASM. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASM's business will thrive in this environment. Given that more restrictive curtailment measures do not seem likely, LASM is likely to perform better than in the April - June quarter. The national curfew measures were particularly restrictive and, therefore, negatively impacted LASM's revenue growth.
LASD Lasco Distributors	P/E: 13.16X P/B: 1.80X Price: J$3.19 Div Yield: 0.0%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those who were furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors as LASD. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASD's business will thrive in this environment.

Ratings Definitions

OVERWEIGHT/BUY
Exposure to this asset should be between 5% and 10% of your total portfolio

UNDERWEIGHT
Reduce exposure in your portfolio to less than 5% for this particular asset

MARKETWEIGHT/HOLD
Exposure to the asset should be equal to 5% of your total portfolio

SELL
Reduce exposure in your portfolio to zero

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Equities

Stock Ticker	Stock Information (As at November 20, 2020)	Analyst Outlook
KWL Kingston Wharves Ltd	P/E: 28.41X P/B: 2.42X Price: J$47.06 Div Yield: 0.66%	**MARKETWEIGHT** KWL had already made significant investments to capture more wallet share in international trade: KWL invested in a Global Auto Logistics Centre, which houses both new and used vehicles for domestic and international transporters. KWL also invested heavily in the Total Logistics Facility, which comprises international standard equipment to manage cargos' haulage. KWL also developed technological resources to improve the clearance and registering speed of cargos, allowing for comprehensive and adequate cargos management.
JBG Jamaica Broilers Group	P/E: 19.58X P/B: 2.01X Price: J$27.76 Div Yield: 0.65%	**OVERWEIGHT** JBG's main strategy moving forward is to continue to grow and diversify its food businesses abroad by gaining market share. The company sees opportunities in the USA (Wincorp International in Florida and International Poultry Breeders in Georgia and Arkansas) and continues to see opportunities to expand investments in the country. JBG continues to maintain a unique and strong position in the Jamaican market (Best Dressed, Hi-Pro and Reggae Jamin') and Haiti (Le Chic Poulet). The company has a fair presence in the Haitian market, and it is expanding within the United States especially under "The Best Dressed Chicken" brand which provides significant opportunities for growth as well supporting its operations in the Caribbean.
CCC Caribbean Cement Company	P/E: 19.44X P/B: 4.66X Price: J$57.94 Div Yield: 0.0%	**OVERWEIGHT** Their ability to generate revenues during this period will be based on CCCs ability to generate business outside of Jamaica (which accounts for the majority of revenue). The increased synergy between CCC and their ultimate parent company CEMEX S.A.B de C.V (Cemex), giving them access to a wider market, will become fruitful in the current downpour being experienced globally, especially in the context of the domestic economic fallout of COVID-19. This bodes well for the future growth prospects of CCC over the short and medium-term. The recent restructuring of the company to acquire additional assets from its parent company through debt while also repurchasing redeemable preference shares will be a drag on earnings with if revenue generation is impacted.

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Equities

Stock Ticker	Stock Information (As at November 20, 2020)	Analyst Outlook
SEP Seprod Limited	P/E: 12.39X P/B: 2.86X Price: J$62.52 Div Yield: 0.78%	**OVERWEIGHT** Seprod has undergone significant structural changes within the last 5-years aimed at improving the underlying performance of the company. Within this period, particular emphasis has been placed on optimizing the distribution, warehousing and logistics capabilities of the company. This gradual, multi-year, improvement was accomplished through reinvestment within the organization coupled with strategic acquisitions aimed at increasing the distribution reach and quality of the company. Another major change was the closure of the Group's loss-making sugar division; a move that enhanced shareholder value. These changes have positioned Seprod to deliver robust growth through an expansive product mix and access to consumer markets both locally and regionally.

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Reduce exposure in your portfolio to less than 5% for this particular asset

SELL
Reduce exposure in your portfolio to zero