Barita

MAKING MONEY WORK FOR YOU.

A New Beginning Dawns

November 30th , 2020

ANALYST INSIGHT

Haughton Richards, FRM
Senior Investment Strategist

A New Beginning Dawns

With a month remaining in 2020, many have begun looking ahead to 2021, wishing to forget about 2020. Instead, we at Barita view 2020 as a critical indicator of what the future will be, not only in 2021 but many years after that. The events of 2020, underpinned by the COVID-19 global pandemic, has highlighted many weaknesses within the global economy. Trade disruptions (both supply and demand side), weak economic frameworks (limited fiscal and monetary capacity), susceptible industries, inequality (increased poverty levels and widening wealth gaps) and divergence of global economies (developing economies will continue to outpace emerging economies) are all issues which have been magnified by the pandemic. As such, in this week's article, we explore the issues which have surfaced and highlighted the reasons we believe that improvements have already begun to repair the damages of 2020 and how this will impact asset classes.

Technology, Now or Never

The biggest lesson from 2020 is that technology is here to stay, the quicker you are the accept this truth, the better position you will be to adapt to the future. Businesses that had integrated technology into their products have been the primary beneficiaries during this pandemic. This is reflected in the SPX index, which is the only index to have gained over 30% on a year-to-date basis. Entities in other industries have also benefited from introducing technology into their operations, which contrasts with recent foot traffic at stores on Black Friday, which fell by 52.1% when compared with last year. This mirrors a trend whereby traditional shoppers have been shifting from heading to malls and queuing up in lines to now shopping online, according to preliminary data from Sensormatic Solutions. This trend is here to stay, and entities that are technology-based have added 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 debt during the recovery period.

Economic Policy, All or Nothing

The impact of COVID-19 has brought out a creative side of economic policymaking not seen before globally. Countries like Germany that have built-in a "balanced budget mandate" from 2009, which means they will only spend what they earn, has decided to step away from this policy due to COVID-19. The United States debt level is inching closer to 100%, the highest level it has been post-World War II. Global debt levels, both sovereign and corporate, are approaching a historical US$227 trillion. Among developed nations, debt surged above 432% of GDP in Q3, a 0.50% increase from 2019. In emerging markets, debt levels rose to over 248% of GDP, with Lebanon, China, Malaysia and Turkey experiencing the biggest increases in non-financial-sector debt. This level of debt has been viewed as necessary as governments essentially do whatever it takes to support their ailing economies, both households and businesses, while also supporting the key industries, mainly health and financial. What this means is that going forward, there will be an increased amount of credit risk within the bond markets as debt has to be repaid. Businesses that have adapted to what the future will be are best positioned to repay their debt while 'zombie companies' will continue to seek support from their governments and without this assistance, could become extinct.

Herding in the markets presents opportunities

It's easy to forget that global stock markets plummeted, on aggregate, by 30% in March when today some have regained almost half of that, and others are even positive. What does that mean? Essentially, markets are a social construct, and by design, social constructs are flawed. A significant flaw of the market is human psychology in the aggregate which essentially means, most investors will buy when the market is rising as they do not wish to miss the "winnings". Conversely, everyone sells when the market is losing value rapidly as they fear losing all their money. It is then important to use these extreme selling moments as an entry point (favourable buying opportunity) into good companies, with great management and a sound outlook beyond the very near-term horizon that is filled with volatility.

In hindsight, despite all that is happening economically, investors would have significantly gained if they positioned themselves appropriately for the future. But not all the opportunities are gone. For example, 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).

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 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 allows investors to gain exposures to these opportunities at a much lower cost versus direct exposure, 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 increased by 2.32%, the JSE All Jamaican Composite Index increased by 2.34%, the JSE Junior Market Index declined by 0.92%%, the JSE Combined Index increased by 2.09%, and the JSE USD Equities Index decreased by 2.48%.

Key Insurance Limited was the largest gainer, rising by 27.32% to close at J$10.02. The biggest loser was Cargo Handlers Limited falling by 16.45% to close at J$6.35.

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 resulted from trading in 100 stocks of which 49 advanced, 37 declined and 14 traded firm.

Market volume amounted to 354,805,957 units valued at over $1,264,953,187.45. Sagicor Select Funds Limited - Financial was the volume leader with 252,443,412 units (71.15%) followed by Transjamaican Highway Limited with 32,789,586 units (9.24%) and Wigton Windfarm Limited Ordinary Shares with 12,288,854 units (3.46%)

Marine park operator Dolphin Cove has secured a US$1 million line of credit from Sagicor Bank which it will use as emergency cash to keep business running, in the event that the fallout from COVID-19 is prolonged.
http://jamaica-gleaner.com/article/business/20201127/dolphin-cove-secures-us1m-line-credit-safeguard

As the general pace of business activities continue to be impacted by the novel coronavirus (COVID-19) pandemic, Wigton Windfarm said that COVID-19 has slowed down its plans for expansion to other countries in the region.
http://www.jamaicaobserver.com/business-report/wigton-s-expansion-projects-halted-by-covid-19-possible-timeline-affected-by-uncertainty-surrounding-pandemic_208554?profile=1056

TransJamaican Highway Limited (TJH), operators of Highway 2000 East-West wing, has formally made known its interest in bidding for the Montego Bay bypass toll road in St James for which construction has been delayed for a year.

Construction of the 15-kilometre toll road, stretching from the Rose Hall main road in the vicinity of the Blue Diamond Shopping Centre on to the Bogue Highway, was supposed to have started next year but has been pushed back to 2022 due to COVID-19. The project is to last for 36 months, at a cost of US$220 million, to be funded by the Government of Jamaica through the National Road Operating and Constructing Company (NROCC).

http://www.jamaicaobserver.com/business-report/tjh-will-bid-for-montego-bay-bypass-toll-road-already-in-negotiations-for-toll-rights-for-may-pen-to-williamsfield-leg-now-under-construction_208612?profile=1056

Index	27/11/2020	20/11/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	397,474.41	388,463.43	509,916.44	2.32%	-22.05%
JSE Junior Market	2,513.83	2,537.29	3,348.97	-0.92%	-30.24%
JSE Combined Market	392,766.93	384,719.97	505,253.98	2.09%	-22.66%
JSE USD Equities Market	187.92	192.70	226.23	-2.48%	-16.93%

INTERNATIONAL DEVELOPMENTS

Gross domestic product grew at an unrevised 33.1% annualized rate, the government said in its second estimate of third-quarter output, confirming the economy's historic pace of expansion in the third quarter.

The economy contracted at a 31.4% rate in the second quarter, the deepest since the government started keeping records in 1947, the Commerce Department reported on Wednesday.

But the fiscal stimulus has largely expired and another rescue package is expected only after President-elect Joe Biden is sworn in on Jan. 20. President Donald Trump is heavily focused on contesting his electoral loss to Biden.

Growth estimates for the fourth quarter are below a 5% annualized rate. Despite encouraging developments on vaccines, spiraling COVID-19 infections as the cold season starts have led economists to sharply downgrade their GDP growth forecasts for the first quarter of 2021.

https://www.cnbc.com/2020/11/25/us-gdp-q3-2020-second-reading.html

Risks for investors as well as developed economies are piling up with debt escalating during the coronavirus pandemic, a director at the Institute for International Finance (IIF) said on Friday.

The coronavirus crisis pushed global debt levels to a new high of over $272 trillion in the third quarter, the institute had said a day earlier. It said global debt would break new records in the coming months to reach $277 trillion by the end of the year.

https://www.cnbc.com/2020/11/20/pandemic-fueled-debt-and-negative-yields-create-risks-for-investors.html

G-20 nations have deployed an unprecedented $11 trillion so far to accelerate an equitable and sustainable economic recovery from the coronavirus crisis, according to a report released ahead of the G-20 leaders' summit in Saudi Arabia this week.

https://www.cnbc.com/2020/11/19/g-20-nations-have-now-deployed-11-trillion-post-covid.html

Index	27/11/2020	20/11/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	29,910.37	29,263.48	28,462.14	1.45%	4.81%
S&P 500	3,638.35	3,557.54	3,234.85	1.58%	12.62%
NASDAQ 100	12258.21	11,906.44	8,733.07	2.28%	40.37%
FTSE 100	6,367.58	6,351.45	7,542.44	0.25%	-15.58%
Euro Stoxx 50	3,527.79	3,467.60	3,748.47	1.74%	-5.80%

Local Economic Conditions

USD Foreign Exchange Market

- The Jamaican Dollar appreciated against most major currencies last week. Our local currency appreciated by 1.16% against the U.S. Dollar week on week to settle at $146.98 as at close of trade Friday, relative to $148.70 per US$1.00 at the end of the prior. Year to date depreciation has been 11.59%.

- 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. They BOJ also commissioned an Foreign Exchange Swap Arrangement which has been heavily used by authorized dealers (ADs) as a means of obtaining much coveted US dollar.

Currency Pair	27/11/2020	20/11/2020	31/12/2019	Week/Week	Year-to-Date
JMD: USD	146.98	148.70	132.57	-1.16%	10.86%
JMD:CAD	112.84	113.18	100.70	-0.30%	12.10%
JMD:GBP	196.37	195.25	170.64	0.57%	15.07%

Unit Trust Performance

- The Money Market Fund increased 0.01% week-on-week, the FX Bond Portfolio had increased by 0.67%, the F.X. Growth Portfolio increased by 2.64% in value, and the Real Estate Portfolio decreased by 5.43% in value. The Capital Growth Fund increased by 1.56% 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 in-line with it's benchmark with a 8.23% year to date performance relative to S&P 500's performance of 12.62% . 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	25/11/2020	18/11/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	82.9730	81.6975	1.56%	-14.28%	-9.62%	-
Money Market	14.8217	14.8194	0.01%	3.17%	3.15%	2.00%
Income Portfolio	100.00	100.00	-	-	-	1.76%
FX Bond Portfolio (US$)	1.3254	1.3165	0.67%	-1.24%	-0.63%	2.03%
Real Estate Portfolio	4,829.15	5,106.66	-5.43%	-6.14%	-8.79%	-
FX Growth Portfolio	0.9694	0.9444	2.64%	8.23%	11.16%	-

- 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.

Barita

MAKING MONEY WORK FOR YOU.

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticket	Stock Information (As at November 27th, 2020)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 25.37X P/B: 4.32 Price: J$15.98 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: 13.73X P/B: 2.18X Price: J$3.80 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: 13.56X P/B: 1.86X Price: J$3.29 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

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at November 27th, 2020)	Analyst Outlook
KWL Kingston Wharves Ltd	P/E: 27.87X P/B: 2.37X Price: J$46.16 Div Yield: 0.67%	**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: 19.75X P/B: 2.03X Price: J$28.00 Div Yield: 0.64%	**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: 20.44X P/B: 4.90X Price: J$60.90 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.

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

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at November 27th, 2020)	Analyst Outlook
SEP Seprod Limited	P/E: 12.47X P/B: 2.788 Price: J$65.84 Div Yield: 0.77%	**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.

Ratings Definitions

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

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

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

SELL
Reduce exposure in your portfolio to zero