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Financial Stability Report: A System Check

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Barita INSIGHTS

2021 INVESTMENT OUTLOOK

In this outlook we critically evaluate three main themes that support our expectations and outlook for asset class performance in 2021.

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ANALYST INSIGHT

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Financial Stability Report: A System Check

The Bank of Jamaica (BOJ) conducts an annual assessment of Jamaica's domestic financial system, which has been empirically proven to underpin economic growth for a country. This 2020 assessment, however, intrinsically carries more weight than previous reports, as this assessment was conducted during an unprecedented global pandemic. This pandemic caused by COVID-19 has been documented to have impacted lives, livelihoods and economies globally. As such, this assessment provides a key understanding of the workings of Jamaica's financial system and provides us with the necessary insights to guide both our investment decisions and opinion of the financial conditions for Jamaica.

The Role of the Financial System

The financial system is comprised of multiple participants, but the highlight of this assessment is on financial intermediaries. Financial intermediaries are those entities that essentially allocate scarce financial resources towards the most productive sectors of the economy. These financial intermediaries include Deposit Taking Institutions (DTI's) such as Banks, Securities Dealers (SDs) such as brokerages, Insurance Companies (ICs) and all other institutions that allow for the transmission of financial resources throughout the financial system. It is important to perform assessments of these institutions, as the free movement of capital to the most productive sectors is an important catalyst for economic growth. Left unchecked, events such as the Great Financial Crisis (GFC) will occur more often and with more severe consequences.

System Checks

Broad areas of the financial intermediaries were assessed and covered to essentially allow regulators to have a clear picture of the state in which the financial system is operating. Key findings from the assessment were:

- The results of DTIs' aggregate stress tests showed that the sector was more resilient to hypothetical shocks applied at end-2020.

- Network analysis revealed a reduction in the risks to the financial system from interconnectivity. Specifically, there were improvements in the systemic risk score which indicated a reduction in contagion. Similarly, the fragility of the network, due to concentration improved marginally, as evidenced by reductions in the fragility score.

- Distribution, Professional and Other Services, Construction and Land Development, Tourism and Electricity accounted for the top five economic sectors that DTIs had exposures to at the end of 2019 and 2020. The Tourism Sector had the largest increase in exposure, accounting for 16.0% of DTIs' loans to the corporate sector at the end of 2020, relative to 13.4% at the end of 2019, becoming their second largest exposure. DTIs' largest exposure remained the Distribution Sector.

- Against the backdrop of the COVID-19 pandemic, asset quality for DTIs deteriorated during the review period. In particular, the ratio of non-performing loans (NPLs) to total loans, increased by 0.6 percentage points to 2.8% at the end of 2020, relative to the same period last year.

- Despite the deterioration in the overall local economic environment caused by COVID-19, subsequently leading to a large GDP contraction, institutions broadly remained compliant with all regulatory measures including but not limited to capital, liquidity and concentration limits. There remains adequate liquidity within the financial system and sufficient capital buffers in place.

Broad Implications

These findings demonstrate the resilience of our financial system in the wake of the COVID-19 pandemic. In particular, the financial institutions remain adequately poised to continue supporting the growth of the economy through the provision of capital. Also, given the high levels of capital buffers, there is adequate shock resistance built into the system, which supported the BOJ's decision to remove the dividend restriction implemented at the heights of the pandemic. With improvements underway in the overall economy in the form of the vaccination program, increased levels of stopovers in our hospitality sector and increasing capital market activities, we believe that the necessary catalysts may be in place for a recovery in the financial sector. This will be shown in the form of lower provisions or expected credit loss (ECL) and potentially higher quality of earnings. This we expect will translate to improvements in our financial sector stocks which continue to trade at relatively low multiples when compared to the overall market. Given the importance of the financial system to the overall economy, this assessment gives improved confidence in the overall macroeconomic backdrop which will underpin Jamaica's recovery from this economic slump. However, risks remain within the overall economy when one considers the concentration of exposure to relatively cyclical sectors. Notwithstanding, prudence by institutions and regulators will ensure stability remains over the long term.

LOCAL EQUITIES MARKET

For the week ended Thursday, our local stock market declined week-over-week. The JSE Combined Index decreased by 0.51%, the Main Market Index declined by 0.74%, the JSE All Jamaican Composite Index declined by 0.77%, the JSE Junior Market Index improved by 2.06%, and the JSE USD Equities Index decline by 1.36%.

During the week, Caribbean Cream Limited was the largest gainer, rising by 24.95% to close at J$5.09. The biggest loser was Ironrock Insurance Co. Limited which fell by 20.00% to close at J$2.88

During the Month of April, we continue to see Junior Market Equities outpacing their Main Market counterparts, as indicated in the table below.

As of Friday April 9th, Overall Market activity resulted from trading in 103 stocks of which 47 advanced, 39 declined and 17 traded firm. Market volume amounted to 67,187,062 units valued at over $301,912,682.45. Wigton Windfarm Limited Ordinary Shares was the volume leader with 14,552,996 units (21.66%) followed by Jamaican Teas Limited with 8,493,266 units (12.64%) and TransJamaican Highway Limited with 6,145,501 units (9.15%) .

Revisiting relevant news during the week:

RJR/Gleaner Communication Group disclosed that it has concluded a deal with its subsidiary Independent Radio Company, which owns Music 99 to sell its entire shareholding in the radio station to Caribbean Global Network. Completion of the transaction is expected on or before April 15 this year, having satisfied all closing conditions and received the necessary regulatory approvals.

https://www.jamaicaobserver.com/sunday-finance/rjr-gleaner-communications-group-sells-its-entity-purchased-by-st-lucian-registered-media-company_218856?profile=1056

Sagicor Bank, under its Sagicor Advance loan facility, has disbursed some $80 million in financing to assist medical service practitioners to increase the capacity of their businesses since the novel coronavirus pandemic.

https://www.jamaicaobserver.com/sunday-finance/sagicor_218850?profile=1056

Paramount Trading on Thursday delisted its 8.75 per cent cumulative redeemable fixed rate preference shares from the local stock market.

https://www.jamaicaobserver.com/sunday-finance/paramount-delists-its-8-75-preference-shares-from-jse_218852?profile=1056

The Bank of Jamaica (BOJ), following a recent meeting with the representatives of financial holding company designates (FHC) and deposit taking institutions (DTIs), has agreed to the resumption of dividend declarations and distributions from these entities.

https://www.jamaicaobserver.com/business-observer/boj-authorises-resumption-of-dividend-payment_218615?profile=1056

JN Fund Managers Limited has successfully raised $1.4 billion with the issue of two fixed rate notes to a combination of institutional and accredited investors in the local capital market.

https://www.jamaicaobserver.com/business-observer/jn-fund-managers-raises-1-4-billion-in-capital-market_218649?profile=1056

Index	9/4/2021	1/4/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	394,428.92	397,354.26	395,614.93	-0.74%	-0.30%
JSE Junior Market	3,058.26	2,996.49	2,643.38	2.06%	15.70%
JSE Combined Market	395,801.66	397,812.53	392,435.92	-0.51%	0.86%
JSE USD Equities Market	207.40	210.27	186.3	-1.36%	11.33%

INTERNATIONAL DEVELOPMENTS

Most of the major benchmarks moved steadily higher to record highs, although the small-cap Russell 2000 Index recorded a modest loss.

The technology-heavy Nasdaq Composite Index outperformed the broad market S&P 500 Index but stayed below its February peak. Tech shares also regained the lead within the S&P 500 during the week, helped by solid gains in Apple and Microsoft—which together account for roughly 40% of the sector's market capitalization.

Casino and cruise line shares were also especially strong, while energy stocks lagged as oil prices pulled back early in the week. Growth stocks handily outperformed value shares, narrowing the performance gap for the year to date.

https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#us

The Labor Department reported that employers added 916,000 jobs in March, well above consensus estimates of around 650,000, and the most since last August. The reopening of bars and restaurants and the rebound in travel were clearly at work, with 280,000 jobs added in leisure and hospitality industries. February job openings, reported Wednesday, hit almost 7.4 million, the highest since January 2019. Many observers were therefore surprised by Thursday's report that initial jobless claims had hit their highest level (744,000) in three weeks, although T. Rowe Price traders noted that the report seemed to have little impact on sentiment.

https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Top 5 Things to Watch This Week -

1. U.S. 1Q Earnings Season Kicks Off - The first quarter earnings season on Wall Street will kick off in the coming week, with banking giants JPMorgan Chase (NYSE:JPM), Goldman Sachs (NYSE:GS), and Wells Fargo (NYSE:WFC) all set to release their latest quarterly results on Wednesday.

2. U.S. Consumer Price Inflation (CPI) - The Commerce Department will publish March CPI figures at 8:30AM ET Tuesday, which should give clearer signs on the pace of inflation. CPI is expected to have risen 0.5% last month and 2.5% over the prior year.

3. U.S. Retail Sales - The consensus forecast is that the report will show retail sales jumped 5.5%, rebounding from February's steep decline of 3%, which was the biggest drop since April 2020.

4. Fed Speakers - Topping the agenda will be remarks from Fed Chair Jerome Powell, who is due to discuss the economy in an interview conducted by CBS' "60 Minutes" program on Sunday night. He also speaks Wednesday at an Economic Club of Washington event.

5. China 1Q Gross Domestic Product (GDP) - China will post its first quarter gross domestic product (GDP) on Friday morning. The data is expected to show the world's second-largest economy grew 18.8% in the first three months of 2021 when compared to the year-ago period. https://www.investing.com/news/economy/economic-calendar--top-5-things-to-watch-this-week-2471131

Index	9/4/2021	2/4/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	33,800.60	33,153.21	30,606.48	1.95%	10.44%
S&P 500	4,128.80	4,019.87	3,756.07	2.71%	9.92%
NASDAQ 100	13,845.06	13,329.52	12,888.28	3.87%	7.42%
FTSE 100	6,915.75	6,737.30	6,460.52	2.65%	7.05%
Euro Stoxx 50	3,978.84	3,945.96	3,552.64	0.83%	12.00%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciated by 0.30% against the U.S. Dollar week on week to settle at $147.30 as at close of trade Friday, relative to $146.86 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately -3.26%.

Interest Rates and Inflation

- Since the onset of the pandemic in March 2020, market volatility has declined significantly. Notwithstanding, the BOJ maintains its position; supportive of the wider economy and continues to hold the policy rate at 0.50%.

- At this rate, based on its assessment, the BOJ notes that inflation will generally continue to remain within the target of 4.0% to 6.0% over the next two years.

- As at February 2021, point-to-point was recorded at 3.8%

Currency Pair	9/4/2021	1/4/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	147.30	146.86	142.65	-0.30%	-3.26%
JMD:CAD	116.39	117.76	111.41	1.17%	-4.47%
JMD:GBP	202.04	202.41	193.66	0.18%	-4.33%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 0.74%, the FX Bond Portfolio has decreased by 0.71%, the F.X. Growth Portfolio increased by 1.37%, the Real Estate Portfolio has increased by 2.97% and the Capital Growth Fund grown by 3.02%.

- 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 increased by 1.37% year to date.

- As at April 7th, 2021, the Capital Growth Fund has delivered a return of 3.02% relative to the JSE Combined and Main Indices which posted a returns of 0.86% and -0.30%, respectively.

- The FX Bond Portfolio remains an attractive fixed-income portfolio, particularly when viewed within the context of global interest rates which have declined significantly as central banks maintain low policy rates to drive the economic recovery.

"The individual investor should act consistently as an investor and not as a speculator."

— Ben Graham

Unit Trust

Unit Trust Fund	7/4/2021	31/3/2021	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	87.43	87.90	-0.53%	3.02%	7.38%	-
Money Market	14.8851	14.8562	0.19%	0.74%	3.27%	1.66%
Income Portfolio	100.00	100.00	-	-	-	2.27%
FX Bond Portfolio (US$)	1.3466	1.3458	0.06%	-0.71%	7.93%	2.09%
Real Estate Portfolio	6,008.21	5,925.99	1.39%	2.97%	-2.23%	-
FX Growth Portfolio	1.0122	0.9912	2.12%	1.37%	23.06%	-

"There are at least three significant reasons we resist contemplating our personal financial goals: it can be stress-inducing, we dislike numbers, it is socially taboo, and we are slaves to "right now."

– Daniel Crosby, Personal Benchmark: Integrating Behavioral Finance and Investment Management

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Equities

Stock Ticket	Stock Information (As at April 9, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.51x P/B: 3.93x Price: J$15.27 Div Yield: 1.18%	**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: 15.30x P/B: 2.50x Price: J$4.54 Div Yield: 1.34%	**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: 15.23x P/B: 2.16x Price: J$4.00 Div Yield: 1.28%	**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

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

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Stock Ticker	Stock Information (As at April 9, 2021)	Analyst Outlook
SEP Seprod Limited	P/E: 18.67x P/B: 3.18x Price: J$73.17 Div Yield: 0.41%	**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.
PROVENJMD Proven Investments Limited	P/E: 17.66x P/B: 1.13x Price: $35.35 Div Yield: 3.50%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.

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PROVENUS Proven Investments Limited	P/E: 18.35x P/B: 1.17x Price: US$0.26 Div Yield: 3.06%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.
SCIJMD Sygnus Credit Investments	P/E: 22.31x P/B: 0.49x Price: J$14.46 Div Yield: 2.48%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.
SCIUSD Sygnus Credit Investments	P/E: 26.67x P/B: 0.52x Price: US$0.12 Div Yield: 2.08%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.

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CCC Caribbean Cement Company	P/E: 19.05x P/B: 5.29x Price: J$71.62 Div Yield: 0.00%	**OVERWEIGHT** Throughout the COVID-19 pandemic, all industries have been affected by what has been a significant downturn in aggregate demand as the pandemic has created a need for persons to reduce travelling and physical interaction. Despite this setback which predominantly materialized in Q2 of 2020, the construction industry has rebounded significantly (7.0% in Q3 2020 and 6.2% in Q4 2020), ahead of many other industries and well ahead of the overall economy. This strong growth over the last two reported quarters has been a significant tailwind for Caribbean Cement and the company has consequently seen a significant increase in the demand for its product, well in excess of previous years. On the heels of what has been a great year for the company, management expects demand to increase further, fuelled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt.

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