The Growing Need To Reshore Manufacturing Activities

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ANALYST INSIGHT

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The Growing Need To Reshore Manufacturing Activities

The Coronavirus has highlighted a chink in the global supply chain's armor and businesses around the globe have been forced to reconsider what has been considered an expensive way to make products, a process known as reshoring. Reshoring is when businesses move production and labor back to their home countries or where the actual demand for a product lies. One of the big issues that came up during the pandemic is when key sources of supply chains closed. For instance, China shut down, then India, which left many companies in a vulnerable position. The automotive industry was particularly affected by the shutdown of international manufacturing capacity. Automobile sales tanked during the lockdown and even after the factories and showrooms reopened, supply was hit hard by months of delays for deliverables ranging from raw materials to completed products. Some industries in Europe are deploying digital technology to replace factory man-hours in an effort to solve the higher labor costs that are a disadvantage from reshoring.

Recently, the vulnerability in global supply chains has been exposed again. Last week, a 220,000-ton, 400-metre ship operated by Taiwan-based firm, Evergreen, became jammed diagonally across a southern end of the Suez Canal. The Suez Canal Authority said it had lost the ability to steer amid high winds and a dust storm. The vessel is still blocking a key lane to Asia-Europe trade through which about 50 ships a day passed in 2019, According to the Egyptian government statistics. Currently, at least 369 boats are waiting to transit the canal, including container ships, bulk carriers, oil tankers and liquefied natural gas vessels, costing the canal approximately US$14-15 million daily. The Suez Canal is one of the most critical passages in the world economy, cutting voyages between Asia and Europe by 3000 miles. Its importance has long been recognized by world commerce as one of the top chokepoints, at risk from disruption by either war or terrorism. The Suez Canal has become an important route for giant container ships carrying all kinds of goods and its disruption will further stress the need for more reshoring initiatives. The UK became one of many nations urgently calling upon its domestic manufacturers to design and produce essential equipment. This was a direct result of the public health consequences of making goods thousands of miles from where they are needed, this became clear in the rush for ventilators in the UK last spring as COVID-19 infection rates spiraled out of control.

Companies that can source and make their products locally might therefore be the ones to emerge from the pandemic less scathed than those that favor sourcing from overseas. However, going forward the idea of sourcing from home and abroad could be the answer, that is, the idea of parallel supply chains. Under this concept, reshoring initiatives would not aim to dismantle existing global chains but instead set up multiple supply chains. The reality is that companies cannot so readily adapt to reshoring in a short period of time but by considering a mix between reshoring and the traditional global supply chains, will give them sustainability should the need arise.

For several years reshoring efforts have been gaining momentum and manufacturing interest has increased in the face of the trade war and the global pandemic. According to Thomas Industrial Survey data, 69% of companies across the manufacturing and industrial sectors" are likely to bring manufacturing and sourcing back to North America." This creates selling opportunities for North American Manufacturers who may have been overlooked in the past as buyers' preferred suppliers. Also, this increases the demand for manufacturing real estate space as some companies would prefer to develop their own manufacturing capacity. The push towards reshoring can also benefit companies by creating diverse supplier portfolios that allows them to be more resilient in acquiring raw material or individual components and ultimately come out of this crisis even stronger than they were before.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market improved week-over-week. The JSE Combined Index increased by 0.30%, the Main Market Index improved by 0.15%, the JSE All Jamaican Composite Index rose by 0.15%, the JSE Junior Market Index improved by 2.07%, and the JSE USD Equities Index increased by 3.08%.

During the week, Knutsford Express Limited was the largest gainer, rising by 18.47% to close at J$6.35. The biggest loser was Ciboney Group Limited which fell by 33.33% to close at J$0.60

As we approach the end of March, we continue to see Junior Market Equities outpacing their Main Market counterparts, as indicated in the table below.

As at Friday March 26, overall market activity resulted from trading in 84 stocks of which 37 advanced, 32 declined and 15 traded firm.
Market volume amounted to 13,893,189 units valued at over $66,135,763.44. Transjamaican Highway Limited was the volume leader with 2,534,982 units (18.25%) followed by The Limners And Bards Limited with 2,276,465 units (16.39%) and General Accident Insurance Company (JA) Limited with 1,400,497 units (10.08%) .

Revisiting relevant news during the week:

Mastercard is expanding its Engage platform in Latin America and the Caribbean to offer customers easy access to a growing network of qualified technology and fintech partners that can quickly deploy Mastercard Digital First solutions.
These solutions will enable customers to provide entirely digital payment experiences for consumers, from acquisition and card usage to management and engagement, with a physical card option. https://www.jamaicaobserver.com/sunday-finance/mastercard-accelerates-deployment-of-digital-first-solutions-in-latin-america-and-the-caribbean_217993?profile=1056

FOLLOWING a prosperous year for the local building and construction industry amid the novel coronavirus pandemic, Carib Cement Company, after achieving a nine per cent year-on-year increase in cement constructions, said the company is now seeking to maximise production capacity as it prepares to satisfy increases in domestic demand. https://www.jamaicaobserver.com/business-report/carib-cement-prepares-for-increased-demand-in-domestic-market_217904?profile=1056

Countries in Latin America and the Caribbean urgently need fiscal reforms to set the stage for a more robust and sustainable post-COVID-19 recovery, the Inter-American Development Bank's (IDB) annual Macroeconomic Report says. https://www.jamaicaobserver.com/business-report/fiscal-institutional-reforms-key-to-latin-america-and-caribbean-post-pandemic-recovery-idb-study_217905?profile=1056

After a month of revisions and minor changes to the projections, Future Energy Source Company Limited (FESCO) has returned with its initial public offering (IPO) where 500 million shares will be on offer to the market as the company is aiming to become the 46th company to list on the Jamaica Stock Exchange's (JSE) Junior Market. https://www.jamaicaobserver.com/business-report/fesco-ipo-back-on-track_217945?profile=1056

Bank of Jamaica (BOJ) on Tuesday announced that after an extensive procurement process, the technology provider chosen to support BOJ in testing a central bank digital currency (CBDC) solution in the Bank's Fintech Regulatory Sandbox for a pilot starting in May to end December 2021 is eCurrency Mint Incorporated. https://www.jamaicaobserver.com/business-observer-daily-biz/bank-of-jamaica-announces-ecurrency-mint-inc-as-its-central-bank-digital-currency-provider_217766?profile=1056

Index	26/03/2021	19/03/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	395,153.87	394,570.77	395,614.93	0.15%	-0.12%
JSE Junior Market	2,984.70	2,924.15	2,643.38	2.07%	12.91%
JSE Combined Market	395,662.24	394,463.76	392,435.92	0.30%	0.82%
JSE USD Equities Market	203.28	197.2	186.3	3.08%	9.11%

INTERNATIONAL DEVELOPMENTS

Biden to push infrastructure before health and family care in next phase of economic plan. President Joe Biden will separate his sprawling plan to upgrade the nation's infrastructure into two separate pieces that he will unveil weeks apart, White House press secretary Jen Psaki said on Sunday.
https://www.cnbc.com/2021/03/28/biden-to-push-infrastructure-before-health-and-family-care.html

The U.S. is in a delicate position as Covid cases increase alongside vaccinations, experts warn. Daily Covid-19 cases are increasing once again after months of declines, a troubling sign as more Americans let down their guard, experts say. More transmissible virus variants could lead to more cases, hospitalizations and deaths among those without access to a vaccine, they warn.
https://www.cnbc.com/2021/03/28/the-us-is-in-a-delicate-position-as-covid-cases-increase-alongside-vaccinations-experts-warn-.html

The Suez Canal passage continues to be blocked in both directions. Whilst efforts continue to dislodge the container ship operated by Evergreen Marine, numbers show that over 300 ships are now waiting at anchorage to pass through the canal.
https://www.maersk.com/news/articles/2021/03/24/vessel-blockage-in-the-suez-canal

An influx of cash to many low-to-moderate-income households as part of the $1.9 trillion Covid-19 relief package is expected to lift several consumer stocks over the next few months
https://www.cnbc.com/2021/03/26/consumers-spending-stimulus-checks-will-boost-airlines-cannabis-and-these-other-stocks-cowen-says.html

Weekly jobless claims totaled 684,000 last week, a decline from the 781,000 the week before and below the 735,000 Dow Jones estimate. This was the first time claims had been below 700,000 during the pandemic era. In a separate report, fourth-quarter GDP was stronger than expected at 4.3%.
https://www.cnbc.com/2021/03/25/weekly-jobless-claims.html

Fed Chairman Jerome Powell said the economy has recovered more quickly than expected, thanks largely to stimulus and vaccines. That will allow the central bank at some point to roll back some of its help, though he said that will happen "very gradually ... and with great transparency."
https://www.cnbc.com/2021/03/25/powell-praises-economic-recovery-and-sees-fed-pulling-back-help-after-substantial-progress.html

The Fed has moved forward on the climate change issue, announcing Tuesday two committees set up to deal with impacts. Federal Reserve Governor Lael Brainard said climate poses "risks to the stability of the broader financial system."
https://www.cnbc.com/2021/03/23/fed-to-examine-risks-climate-change-poses-to-financial-system.html

Covid-19 is no longer the biggest "tail risk" for investors, according to the latest Bank of America Fund Manager Survey. The pandemic has been replaced by inflation and fears of a bond market "taper tantrum." Investors are now "unambiguously bullish" on stocks but have slashed tech allocations, according to Bank of America chief investment strategist Michael Hartnett.
https://www.cnbc.com/2021/03/16/investors-now-fear-inflation-and-the-fed-more-than-covid-bank-of-america-survey-shows.html

Index	26/03/2021	19/03/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	33,072.88	32,627.97	30,606.48	1.36%	8.06%
S&P 500	3,974.54	3,913.10	3,756.07	1.57%	5.82%
NASDAQ 100	12,979.12	12,866.99	12,888.28	0.87%	0.70%
FTSE 100	6,740.59	6,708.71	6,460.52	0.48%	4.34%
Euro Stoxx 50	3,866.68	3,837.02	3,552.64	0.77%	8.84%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency appreciated by 0.15% against the U.S. Dollar week on week to settle at $146.19 as at close of trade Friday, relative to $146.42 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately -2.42%.

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	26/03/2021	19/03/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	146.1942	146.4201	142.6493	0.15%	-2.42%
JMD:CAD	117.0514	119.7094	111.4117	2.27%	-4.82%
JMD:GBP	202.4294	204.7914	193.6657	1.17%	-4.33%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 0.89%, the FX Bond Portfolio has decreased by -0.63%, the F.X. Growth Portfolio increased by 0.14%, the Real Estate Portfolio has decreased by 3.54% and the Capital Growth Fund has grown by 2.92%.

- 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 0.14% year to date.

- As at March 26th, 2021, the Capital Growth Fund has delivered a return of 2.92% relative to the JSE Combined and Main Indices which posted returns of 0.82% and -0.12%, 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	26/03/2021	18/02/2021	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	87.3463	86.79	0.64%	2.92%	25.91%	-
Money Market	14.9071	14.9299	-0.15%	0.89%	3.32%	2.31%
Income Portfolio	100.0000	100.0000	0.00%	-	-	2.08%
FX Bond Portfolio (US$)	1.3477	1.3475	0.01%	-0.63%	5.18%	2.06%
Real Estate Portfolio	6,041.4453	6,072.76	-0.52%	3.54%	14.73%	-
FX Growth Portfolio	1.0000	0.9854	1.48%	0.14%	24.95%	-

"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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Investment Playbook

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Equities

Stock Ticket	Stock Information (As at March 12, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 22.34x P/B: 4.08x Price: J$15.86 Div Yield: 1.13%	**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: 14.96x P/B: 2.45x Price: J$4.44 Div Yield: 1.37%	**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: 14.47x P/B: 2.05x Price: J$3.80 Div Yield: 1.34%	**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

Investment Playbook

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Equities

Stock Ticker	Stock Information (As at March 12, 2021)	Analyst Outlook
SEP Seprod Limited	P/E: 16.25x P/B: 3.07x Price: J$70.97 Div Yield: 0.42%	**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: 16.82x P/B: 1.10x Price: $34.56 Div Yield: 3.58%	**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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Investment Playbook

Equities

Stock Ticker	Stock Information (As at March 12, 2021)	Analyst Outlook
PROVENUS Proven Investments Limited	P/E: 16.92x P/B: 1.08x Price: US$0.24 Div Yield: 3.32%	**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: 22.85x P/B: 0.50x Price: J$14.81 Div Yield: 2.18%	**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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