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An Uneven Path Back To “Normal”

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ANALYST INSIGHT

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An Uneven Path Back To "Normal"

In a full year after the global economy suffered one of the worst health crisis on record, which quickly evolved into one of the worst economic crisis recorded in the post-World War II era, it appears 'Normal' has returned. On May 23rd, 2021, individuals were able to attend the Madison Square Garden in New York to watch the local basketball team, the New York Knicks, play in their first playoff game since 2013. This was possible as the Centers for Disease Control and Prevention (CDC) gave guidance that fully vaccinated persons can now go without masks both indoor and outdoors. Local states have implemented their own variation of this guidance, but its safe to say, some normalcy has returned. Global hotel bookings have increased, cruise line bookings have increased, business and leisure air travels have seen a steady increase, global equity markets are in the green (with its usual ebbs and flows of volatility). However, elsewhere particularly in developing and emerging economies the devasting reality of COVID-19 is still prevalent. This state of affairs suggest that not only is the path 'back to normal' uneven, but it is also fundamentally unequal, which itself might have reverberating consequences for the global economic recovery. Let's get a handle of where we are in this recovery.

Economy

The International Monetary Fund (IMF) revised their global outlook in April upward to 6.0% for 2021 and 4.4% in 2022, supported by vaccination programs globally (albeit skewed to developed nations versus developing nations), additional fiscal stimulus and continued adaptation of economic activity to subdued mobility. Risks to this include additional lockdown measures caused by renewed COVID-19 breakouts (like the current situation in India), new variants of the virus, delayed reopening measures caused by weaker labour forces and trade disruptions as examples. Our assessment is that the recovery is underway and will continue once there is strict adherence to recommended guidelines to combat the spread of the virus such as social distancing measures. While the CDC issued its updated guidance regarding vaccinated personnel, there has not been a medically agreed upon level for herd immunity. As such, it serves the global economy best that procedures that aided us getting this far into recovery be adhered to.

Securities Market

Global policymakers implemented extraordinary measures to curtail one of the gravest economic conditions in the post-World War II era. This was done through accommodative fiscal and monetary policies that essentially pumped needed liquidity in the capital markets and directly into the hands of households. This level of liquidity and support created the necessary catalyst for the securities market to climb out of the trough of March 23rd, 2020. The MSCI Global Index ended 2020 with a 14.06% return, with a year-over-year return as at May 23rd of 42.01%, and the current year-to-date return of 9.41%. What this implies is that, despite the level of fear induced into the market, policymakers were more than able provide the necessary environment for investors. However, this has led to valuations at all time highs for equities, while the pandemic is still ongoing. Also, inflation concerns continue to be built into the market with yields rising above their lows, spreading concerns for fixed income investors. All around this creates a challenge for the current investment environment, however, as forward indicators of the economy, there are more positive risks to the upside barring setbacks related to the virus.

Conclusion

Risks such as re-emergence of COVID-19 or variants of it being spread across countries cannot be ignored. Plus, developing countries still are disadvantaged by their low access to the vaccine and that makes them susceptible to delayed re-openings. This indirectly impacts the global recovery as these economies have a part to play in the global ecosystem such as exporters of pure metals, agricultural products or crude oil reserves. What this truly means is that there is still time for the investors to take positions in opportunities in the market. Using our local market for example, we have seen steady improvements in our financial sector, with companies recording high revenues, lower expected credit losses and higher return on equity to investors. Our Manufacturing and Distribution sector which outperformed during the crisis continued this performance, delivering on top of their strong 2020 performances. Although some risk assets appear to be trading at stretched valuations, there are still opportunities for investors to exploit at this stage of the cycle.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market decreased week-over-week. The JSE Combined Index decreased by 0.79%, the Main Market Index decreased by 0.87%, the JSE All Jamaican Composite Index grew by 0.61%, the JSE Junior Market Index improved by 0.08%, and the JSE USD Equities Index declined by 2.36%.

During the week, Jetcon Corporation Limited was the largest gainer, rising by 46.27% to close at J$10.40. The biggest loser being Portland JSX Limited which fell by 31.54% to close at J$7.12

Year to Date, The Junior Market Index (+25.75% YTD) continues to outpace its Main Market counterpart (+7.25% YTD.)

As of Friday May 21st, 2021, Overall market activity resulted from trading in 108 stocks of which 45 advanced, 54 declined and 9 traded firm. market volume amounted to 143,658,377 units valued at over $1,083,572,386.75. Future Energy Source Company Ltd ordinary shares as the volume leader with 31,193,935 units (21.71%) followed by Sagicor Select Funds Limited – Financial and Wigton Windfarm Limited ordinary shares with 11,697,102 units (8.14%).

Revisiting relevant news during the week:

As the season for March quarterly results by listed companies is winding down, the evidence is showing that manufacturing and distribution companies continue their profitable run in spite of the ongoing pandemic.
https://www.jamaicaobserver.com/business-observer/manufacturing-distribution-companies-continue-their-profitable-run-amid-the-pandemic-most-reported-growth-in-net-income-ranging-from-a-low-of-1-to-a-high-of-443-1-_221803?profile=1056

Following its highly successful additional public offering (APO) in January, Derrimon Trading Company Limited (DTL) has begun to put the funds to use as seen from the 21 per cent rise in revenue to $4.01 billion with net profit attributable to shareholders growing by 68 per cent to a record $154.2 million for the period ending March 31, 2021.
https://www.jamaicaobserver.com/sunday-finance/derrimon-profits-spike-on-acquisition-of-new-york-businesses_222097?profile=1056

Despite being relisted to the Jamaica Stock Exchange (JSE) on May 5 after 13 years, local investors had limited options to access the shares of regional insurance giant Guardian Holdings Limited (GHL). However, NCB Financial Group Limited (NCBFG) has decided to improve the opportunity for access through the sale of 2 million shares. These 2 million shares are worth approximately $1.6 million.
https://www.jamaicaobserver.com/business-report/ncb-creates-liquidity-for-ghl-shares-1-6-billion-worth-of-shares-made-available-to-public_222076?profile=1056

The Statistical Institute of Jamaica (Statin) for the month of April reported an inflation rate of -0.5 per cent. The rate in the previous month was 1.1 per cent.
https://www.jamaicaobserver.com/business-observer/april-records--0-5-per-cent-inflation-rate_221755?profile=1056

Index	21/5/2021	14/5/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	424,303.18	428,015.27	395,614.93	-0.87%	7.25%
JSE Junior Market	3,324.08	3,321.55	2,643.38	0.08%	25.75%
JSE Combined Market	426,201.24	429,604.72	392,435.92	-0.79%	8.60%
JSE USD Equities Market	208.05	213.07	186.30	-2.36%	11.67%

INTERNATIONAL DEVELOPMENTS

Stocks posted mixed results in a volatile week of trading, with the large-cap S&P 500 Index ending modestly lower and the tech-heavy Nasdaq Composite Index gaining a little ground. These mixed results likely reflect strength in the U.S. economy, as well as concerns about inflation and the timing of when the Federal Reserve might begin to rein in its accommodative policies. Within the S&P 500, the health care posted the largest gain. Energy and industrials lost ground.

Fed hints it may discuss tapering of asset purchases

Minutes from the Federal Open Market Committee's (FOMC) meeting in late April offered additional insight into policymakers' thinking on the economy and inflationary pressures. Investors focused on a statement that "a number of participants" suggested that policymakers "begin discussing a plan" for tapering the Fed's monthly asset purchase program, which stands at USD 120 billion.

The Commerce Department said on Friday the unchanged reading in retail sales last month followed a 10.7% surge in March, an upward revision from the previously reported 9.7% increase.

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

Regarding inflation, the FOMC members have expressed the likely outcome that inflation to run temporarily above their 2% target due mainly to transitory supply chain bottlenecks. Some members highlighted the risk that price increases could reach to unwanted levels before they get a policy reaction from the Fed. The majority of policy holders communicated that longer-term inflation expectations remain in line with the central bank's longer-term goals.

Oil prices jumped as much as 4% Monday as investors across markets recovered their appetite for risk after weeks of obsessing over inflation worries.
https://www.investing.com/news/commodities-news/oil-jumps-4-on-cocktail-of-riskon-trades-and-memorial-day-bets-2514705

The dollar languished near four-month lows against major currencies on Monday as bets on a robust global economic recovery continued to support currencies seen as riskier.

The dollar index moved around the 90 mark, down 0.2% on the day, slightly above a four-month low on Friday of 89.646.
https://www.investing.com/news/economy/dollar-near-3month-low-weighed-by-prospects-of-dovish-fed-2514083

Bitcoin fell 13% on Sunday after the world's biggest and best-known cryptocurrency suffered another sell-off that left it down nearly 50% from the year's high.

https://www.investing.com/news/cryptocurrency-news/bitcoin-down-almost-50-from-years-high-2513984

Global equity markets gained on Monday while the dollar traded near four-month lows against major currencies as investors eye upcoming U.S. inflation readings for guidance on monetary policy.
https://www.investing.com/news/economy/asia-shares-cautious-ahead-of-us-inflation-test-bitcoin-slides-2514077

Index	21/5/2021	14/5/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,430.92	34,382.13	30,606.48	0.14%	12.50%
S&P 500	4,203.46	4,173.85	3,756.07	0.71%	11.91%
NASDAQ 100	13,664.16	13,393.12	12,888.28	2.02%	6.02%
FTSE 100	7,051.59	7,043.61	6,460.52	0.11%	9.15%
Euro Stoxx 50	4,035.73	4,017.44	3,552.64	0.46%	13.60%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency appreciated by 0.78% against the U.S. Dollar week on week to settle at $149.79 as at close of trade Friday, relative to $150.97 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately 5.01%.

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 April 2021, point-to-point was recorded at 3.8%.

Currency Pair	21/5/2021	14/5/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	149.79	150.97	142.65	0.78%	-5.01%
JMD:CAD	125.14	126.30	111.41	0.92%	-12.33%
JMD:GBP	213.15	211.90	193.66	-0.59%	-10.06%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.63%, the FX Bond Portfolio has decreased by 0.12%, the F.X. Growth Portfolio decreased by 0.30%, the Real Estate Portfolio has decreased by 4.03% and the Capital Growth Fund has grown by 9.08%.

- 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 decreased by 0.30% year to date.

- As at May 21th, 2021, the Capital Growth Fund has delivered a YTD return of 9.08% relative to the JSE Combined and Main Market Indices which posted returns of 8.60% and 7.25%, 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	19/5/2021	12/5/2021	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	92.58	92.65	-0.08%	9.08%	19.24%	-
Money Market	15.0168	15.0244	-0.05%	1.63%	2.15%	1.92%
Income Portfolio	100.00	100.00	-	-	-	2.45%
FX Bond Portfolio (US$)	1.3546	1.3543	0.02%	-0.12%	7.04%	2.25%
Real Estate Portfolio	5,599.92	5,828.99	-3.93%	-4.03%	-21.60%	-
FX Growth Portfolio	0.9956	0.9895	0.62%	-0.30%	14.70%	-

"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 May 21st, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.58 P/B: 3.91x Price: J$15.54 Div Yield: 1.22%	**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: 18.07x P/B: 2.96x Price: J$5.36 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 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: 15.80x P/B: 2.13x Price: J$3.95 Div Yield: 1.29%	**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

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Reduce exposure in your portfolio to zero

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SEP Seprod Limited	P/E: 19.79x P/B: 3.37x Price: J$77.57 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.
PROVENJMD Proven Investments Limited	P/E: 18.60x P/B: 1.19x Price: $37.23 Div Yield: 2.12%	**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: 18.71x P/B: 1.19x Price: US$0.26 Div Yield: 3.00%	**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: 13.68x P/B: 0.30x Price: J$15.59 Div Yield: 2.30%	**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: 19.34x P/B: 0.39x Price: US$0.15 Div Yield: 1.69%	**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: 23.30x P/B: 5.71x Price: J$87.61 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.
LAB The Limners and Bards Limited	P/E: 22.27x P/B: 6.11x Price: J$3.34 Div Yield: 2.42%	**OVERWEIGHT** The Lab provides a unique opportunity for investors to get exposure to the first and only advertising and film production company listed on the Jamaica Stock Exchange (JSE). The Lab's business model is built on providing innovative solutions to clients through its main services including its brand/communication strategy, campaign concepts & execution, media buying, and film production. Throughout the pandemic, the company has repositioned its business to meet the demand of clients who needed digital solutions. Consequently, while many industries and companies faltered in 2020, The Lab reported strong top and bottom-line growth of 44.30% and 34.13%, respectively. This growth has continued into 2021, reflecting significant double-digit growth in two of the company's three operating segments. Against the backdrop of a strong, stable business model coupled with robust financial performance, we have issued an OVERWEIGHT recommendation for The Limners and Bards Limited.

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CPFV Eppley Caribbean Property Fund SCC	P/E: 30.21x P/B: 0.77x Price: J$44.98 Div Yield: 6.00%	**OVERWEIGHT** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.

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