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400,000 and Rising: Turbulence Recedes But Risk Remains

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ANALYST INSIGHT

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400,000 and Rising: Turbulence Recedes But Risk Remains

The Jamaica Stock Exchange (JSE) as at the end of April 2021, crossed the 400,000-index level. This is a first since the market entered bear market territory (a 20% decline from its previous peak). Relative to the April 2020 levels (the trough of the bear market), we are now 13.5% higher than where we were a year ago. While still below the 509,916.44 level as at December 31st, 2019, the market is above the lows of April 2020 and now surpassed a key level, a level which we surpassed in 2019 when the index went on to increase by 34.3% and recognized as the fifth best performing stock exchange in the world. Given where we are now, what we've been through, and the cautiously optimistic runway ahead, assuming we're on a plane, should we remove the seatbelt light in the cabin with respect to the JSE? Let's consider a few factors before determining an answer.

Economic Developments

Jamaica's economy plunged to its worst post-independence contraction, with GDP declining by over 18% in Q2 of 2020 calendar year. This was a self-inflicted wound as the government undertook extraordinary measures to curtail the spread of the novel COVID-19 virus, a global pandemic. This health crisis quickly became an economic crisis as global governments acted in similar fashion, now being dubbed as "The Great Lockdown". What this means for a small open economy like Jamaica is that we would be operating below our usual levels of productivity. Considering our dependence on hospitality for foreign exchange and employment, as well as being a key component in our economic framework, we were materially impacted by these health measures. Curfews and social distancing measures restricted domestic activities across industries and such , livelihoods were disrupted at all levels.

Economic Policy

Policymakers were swift and aggressive in their response to the pandemic. Implementing programs such as CARE, leveraging the Disaster Risk Management Act, remaining accommodative in monetary policies through targeted measures and postponing of economic targets to allow for higher quality of social spending by the government. At the heights of the crisis, one would question if the policymakers were doing enough, and today we can say, yes. This is supported by Jamaica's economy growing quarter over quarter (measured by GDP), without a material fallout in our economic framework and measures such as debt-to-GDP. An unprecedented crisis required an unprecedented response.

Market Events

At the onset of the crisis the Bank of Jamaica (BOJ) restricted payments of dividends by financial holding company designates (FHC) and deposit taking institutions (DTIs) which was a major blow for our market that is materially weighted towards these entities (on a market-capitalization weighted basis). We saw postponements of multiple public offerings, reduced levels in market transactions (both in value and volume) and lower levels of financial performance for our listed companies. These factors induced a risk-off sentiment and as such, the market was largely flat for months.

Better than Expected

However, throughout 2020 and to date, it was observed that the economy and market exhibited some resilience. Jamaica received three rating affirmations from global rating agencies, our GDP growth has been on a positive trajectory since its precipitous decline, unemployment declined from its crisis high of 10% to a pre-COVID level of 7%, capital market activities resumed with APOs and IPOs alike, the BOJ removed its dividend mandate restriction, policymakers were able to establish sound economic policies such as the independence of the BOJ, transaction volumes and values have begun to increase, and company performances have begun to improve materially (especially in the Manufacturing and Distribution sector).

Conclusive Thoughts

We must consider what is ahead of us, with vaccines being distributed globally, light is at the end of the tunnel. However, the New Normal is still being formed and caution cannot be thrown to the wind. The savvy investor who remained true to their investment thesis and steered headfirst into the crisis has been rewarded. Balancing the risks is important however, as such , it is ***not*** time to remove our seatbelts. Prudent and strategic positions in quality companies should continue to be the focus. Investors all have a 'fear of missing out' and as such, we recommend reaching out to your licensed investment advisor at Barita to re-engage your investment portfolio and identify opportunities, for which our Investment Playbook continues to showcase some of these opportunities.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market increased week-over-week. The JSE Combined Index increased by 1.44%, the Main Market Index improved by 1.29%, the JSE All Jamaican Composite Index grew by 0.34%, the JSE Junior Market Index improved by 1.01%, and the JSE USD Equities Index decreased by 0.96%.

During the week Fosrich Company Limited was the largest gainer, rising by 22.96% to close at J$7.17. The biggest loser was Knustford Express Services Limited which fell by 22.65% to close at J$6.90

During the Month of April, we continue to see Junior Market Equities (+20.39% Year to date) outpacing their Main Market counterparts (+3.14% Year to date.)

Overall Market activity resulted from trading in 97 stocks of which 39 advanced, 45 declined and 13 traded firm.

Market volume amounted to 58,080,553 units valued at over $275,803,018.00. Main Event Entertainment Group was the volume leader with 30,502,293 units (52.52%) followed by JMMB Group Limited 7.50% with 6,881,173 units (11.85%) and Future Energy Source Company Limited Ordinary Shares with 4,399,263 units (7.57%) .

Revisiting relevant news during the week:

The recovery has started at TransJamaican Highway (TJH), operators of the East-West leg of Highway 2000, the toll road network which was hit hard by the novel coronavirus pandemic.

https://www.jamaicaobserver.com/sunday-finance/transjamaican-highway-recovering-from-low-traffic-volumes-march-2021-quarter-up-6-8-above-pre-covid-levels-last-year_220438?profile=1056

WITH no cruise ships arriving at the Grand Turk Cruise port in over a year, Margaritaville (Turks) Ltd (MTL) is reporting that it incurred a third-quarter US$261,014 ($39.2 million) loss, with its cumulative loss for the nine months to February 28 totalling US$1.1 million ($159.9 million).. https://www.jamaicaobserver.com/sunday-finance/margaritaville-turks-goes-a-year-without-revenue_220436?profile=1056

For March 2021, output prices for producers in the mining and quarrying industry increased by 3.7 per cent and by 2.8 per cent in the manufacturing industry as released yesterday by the Statistical Institute of Jamaica (STATIN). https://www.jamaicaobserver.com/business-report-front-page/manufacturing-mining-output-prices-up_220389?profile=1056

Fresh from doubling its profits for the just ended March quarter, stockbrokerage and investment firm Barita is on the move again with its expansion plans materialising.

The firm, which has the distinction of being the oldest stockbroking company in Jamaica, is set to open two new locations in Jamaica in New Kingston and Montego Bay. The new locations could be up and running as soon as next month. https://www.jamaicaobserver.com/business-observer/barita-in-expansion-mode_220186?profile=1056

The Bank of Jamaica (BOJ) is reporting that there is sufficient American dollars in the foreign exchange (FX) market given the fact that there were no confirmed swap transactions last week. https://www.jamaicaobserver.com/business-observer/sufficient-us-in-the-market-no-fx-swap-transactions-last-week_220171?profile=1056

Index	30/4/2021	23/4/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	408,023.02	402,842.60	395,614.93	1.29%	3.14%
JSE Junior Market	3,182.36	3,150.55	2,643.38	1.01%	20.39%
JSE Combined Market	409,648.36	404,542.48	392,435.92	1.26%	4.39%
JSE USD Equities Market	209.56	211.60	186.30	-0.96%	12.49%

INTERNATIONAL DEVELOPMENTS

Stocks touch record highs as investors focus on earnings reports

The major indexes ended mostly lower, but the S&P 500, the Nasdaq Composite, and the S&P MidCap indexes all reached new highs before surrendering their gains on Friday. Returns within and among sectors varied widely as investors reacted to a flood of first-quarter earnings reports, although a rise in oil prices to six-week highs provided a general boost to energy stocks. Communication services shares outperformed within the S&P 500, helped by earnings and revenue beats from Facebook and Alphabet (Google). Technology stocks underperformed, weighed down by a decline in Microsoft despite the company reporting earnings that exceeded consensus estimates. Health care shares were also weak, dragged lower by declines in several major drugmakers.

Federal Reserve officials next week are likely to paint a robust picture on the economy while simultaneously not even hinting at policy changes ahead.

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

It was the busiest week of first-quarter earnings season, with 180 constituents of the S&P 500 expected to report results, according to Refinitiv. Analysts polled by both Refinitiv and FactSet are currently expecting overall earnings for the S&P 500 to have increased by roughly a third compared with the first quarter of 2020, when the economy first felt the impact of the pandemic and lockdowns. The rebound in the overall economy also seemed to support sentiment, although T. Rowe Price traders noted that worries about faster growth prompting a rise in interest rates seemed to periodically drain the gains.

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

Top Things to Watch This Week:

1. **Earnings Season Continues**

2. **Job Gains Expected:** The U.S. economy is expected to have notched up another strong month of jobs growth in April with Friday's nonfarm payrolls report expected to show 978,000 jobs created, after 916,000 jobs were added in March - the largest increase since last August. The unemployment rate is expected to tick down to 5.7% from 6%.

3. **Fed Speakers:** Fed Chairman Jerome Powell is speaking on Monday, but he is not expected to offer any fresh insights on the economy during his appearance to discuss community development at an online conference hosted by the National Community Reinvestment Coalition.

4. **PMI Data:** Ahead of Friday's all important jobs report investors will get more data to firm up their view of the health of the economy with ISM manufacturing and service reports. While claims have dropped from a record 6.149 million in early April 2020, they are still above the range of 200,000 to 250,000 that is viewed as consistent with a healthy labor market. There were 16.6 million people receiving unemployment benefits in the first week of April.
5. **Bank of England Meeting:** The BoE could take its foot off the stimulus pedal and scale back its pace of bond purchases at its meeting on Thursday, with Britain's economy rebounding strongly from the pandemic induced recession.

Index	30/4/2021	23/4/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	33,874.85	34,043.49	30,606.48	-0.50%	10.68%
S&P 500	4,181.17	4,180.17	3,756.07	0.02%	11.32%
NASDAQ 100	13,860.76	13,941.44	12,888.28	-0.58%	7.55%
FTSE 100	6,969.81	6,938.56	6,460.52	0.45%	7.88%
Euro Stoxx 50	3,974.74	4,013.34	3,552.64	-0.96%	11.88%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency appreciated slightly by 0.29% against the U.S. Dollar week on week to settle at $154.30 as at close of trade Friday, relative to $154.74 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately -8.17%.

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 March 2021, point-to-point was recorded at 5.2%.

- 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 2.25% year to date.
- As at April 29st, 2021, the Capital Growth Fund has delivered a YTD return of 6.56% relative to the JSE Combined and Main Market Indices which posted a returns of 4.39% and 3.14%, 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.

Currency Pair	30/4/2021	23/4/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	154.30	154.74	142.65	0.29%	-8.17%
JMD:CAD	125.19	124.21	111.41	-0.79%	-12.37%
JMD:GBP	212.40	212.54	193.66	0.06%	-9.68%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.53%, the FX Bond Portfolio has decreased by -0.04%, the F.X. Growth Portfolio increased by 2.82%, the Real Estate Portfolio has year to date by 0.39% and the Capital Growth Fund has grown by 6.56%.

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

— Ben Graham

Unit Trust

Unit Trust Fund	29/4/2021	21/3/2021	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	90.43	89.65	0.87%	6.56%	18.91%	-
Money Market	15.0018	14.9829	0.13%	1.53%	2.94%	1.66%
Income Portfolio	100.00	100.00	-	-	-	2.27%
FX Bond Portfolio (US$)	1.3556	1.3544	0.09%	-0.04%	8.01%	2.09%
Real Estate Portfolio	5,812.25	5,964.69	-2.56%	-0.39%	-9.21%	-
FX Growth Portfolio	1.0267	1.0211	0.55%	2.82%	20.81%	-

"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 April 30, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 22.10x P/B: 4.04x Price: J$15.69 Div Yield: 1.15%	**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: 17.26x P/B: 2.82x Price: J$5.12 Div Yield: 1.19%	**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: 14.54x P/B: 2.06x Price: J$3.82 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

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Stock Ticker	Stock Information (As at April 30, 2021)	Analyst Outlook
SEP Seprod Limited	P/E: 20.30x P/B: 3.45x Price: J$79.56 Div Yield: 0.38%	**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: 18.91x P/B: 1.21x Price: $37.85 Div Yield: 3.27%	**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: 18.53x P/B: 1.18x Price: US$0.26 Div Yield: 3.03%	**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: 23.12x P/B: 0.50x Price: J$14.98 Div Yield: 2.39%	**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: 33.11x P/B: 0.65x Price: US$0.15 Div Yield: 1.67%	**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: 23.60x P/B: 5.78x Price: J$88.72 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. The company is positioning itself to meet increase 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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