What to Expect from The New COVID-19 Variant (Omicron)

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ANALYST INSIGHT

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What to Expect From The New COVID-19 Variant (Omicron)

COVID-19 is back on top of the agenda for investors amid fears that the new Omicron variant could slow the global economic recovery from the nearly two-year pandemic. This new strain may also raise doubts over how quickly the Federal Reserve can move to unwind stimulus to tackle elevated inflation. Last week's equity market sell-off was the worst we've seen this year so far, and should the virus be more resilient to vaccines and deadly, the possibility exists that markets could have a further sell-off. Importantly, we've seen markets continue to rise in the past, when the delta variant was considered a significant threat. Given this precedence, the possibility exists that investors see beyond the initial period that could cause a sell-off. Investors should note that its early stages so the officials do not yet possess sufficient data. As such, it'll require more time to determine the full severity of the virus. Dr. Anthony Fauci, the top U.S. infectious disease official, told President Biden on Sunday that it will take approximately two weeks to have definitive information on the new coronavirus variant Omicron. Markets can have several reactions, varying over the short, medium and longer term, depending on the progression of the data and what the data ultimately indicates. Below we cover possible scenarios on how global financial markets may react once more data is released.

Scenario 1: Further sell-off

This scenario could materialize should the variant prove to be more resilient and deadly than other variants. The UK has already begun to tighten travel restrictions and other countries such as the U.S. are following suit. This could further slow global economic growth. At present, markets have grown significantly such that heightened risks such as a new variant could temporarily stall index level growth. Further, central banks broadly have little room to effectively navigate any significantly negative outturns given the already accommodative positioning we've experienced.

Scenario 2: Market correction

In this scenario, its likely that COVID-19 therapies are capable to tackle the new variant and the short-term scare of the Omicron variant could simply be short-lived. If further evidence shows that the spread of the new variant in Europe is scarce, then markets will likely retrace. Importantly, markets could also simply look beyond the initial period of uncertainty, similar to what was seen from the Delta variant.

Scenario 3: Just Overexuberance

Currently, there is little evidence of a broad spread of Omicron, however, it is clear that markets fear another significant wave of a Covid-19 variant. This may just prove to be a wake-up call for investors as it relates to positioning and countries in terms of health and precautionary measures. Importantly, this could simply be overexuberance as initial information suggests that symptoms from the variant are mild to moderate. As investors try to predict the severity of the variant, initial volatility could remain slightly elevated, but should subside as we've seen with previous variants, particularly considering initial indications.

It is our opinion that the last two scenarios are more likely to occur. As it relates to our local market, we don't expect significant price movement in response to the threat of the Omicron variant towards the end of the year. However, depending on how global markets react, the possibility exists that there are more direct implications on the tourism as well as the Manufacturing & Distribution sectors.

Capital Markets positioning

Since February, we've seen a rotation in and out of COVID-19 beneficiaries and economic recovery beneficiaries. More recently, there has been greater rotation into recovery beneficiaries, but in all likelihood, any further sell-off on the back of a new variant would have negative implications for these companies. In the event that sales in recovery beneficiary stocks like travel, tourism, bars and restaurants etc. are overdone, it presents an opportunity for buyers. Moreover, several industries continue to have tailwinds, in our opinion, that should last beyond the initial period of uncertainty surrounding this new variant. These include financial stocks with balance sheets that have low liability exposure to money market rates and could benefit from current, more restrictive central banking policy, as well as some tech companies that remain pivotal for long term secular trends such as Environmental, Social and Governance (ESG) centric practices etc, in light of current expectations for fighting climate change. These companies have long term growth supports that should add value to portfolios beyond the short-term bout driven by Omicron.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market advanced week-over-week. The JSE Combined Index increased by 1.10%, the Main Market Index increased by 1.14%, the JSE All Jamaican Composite Index advanced by 1.22%, the JSE Junior Market Index increased by 0.69%, and the JSE USD Equities Index advanced by 0.32%. During the week, Productive Business Solutions 9.75% cumulative preference share was the largest gainer, rising by approximately 40.08% to close at J$101.00. The biggest loser was JMMB Group limited 7.25% preference share which fell by 34.07% to close at J$2.40.

Year to Date, The Junior Market Index (+27.55% YTD) continues to outpace its Main Market counterpart (-1.11% YTD) by a wide margin.

As of Friday November 26, 2021, Overall Market activity resulted from trading in 110 stocks of which 59 advanced, 43 declined and 8 traded firm. Market volume amounted to 74,479,986 units valued at over $455,923,032.42. TransJamaican Highway Limited Ordinary Shares was the volume leader with 11,949,529 units (16.04%) followed by Sagicor Select Funds Limited with 8,783,329 units (11.79%) and Caribbean Flavours & Fragrances Limited with 6,546,471 units (8.79%).

Revisiting relevant news during the week:

VM investments is set to acquire Republic Funds (Barbados) which is the owner and operator of the Republic Bank Barbados family of mutual funds which comprises of Republic Property Fund, Republic Income Fund and Republic Capital Growth Fund. The transaction is however pending regulatory approval.
VM to acquire Republic Funds

In a recent forum hosted by JAMPRO, the managing director of Caribbean Cement Limited (CCCL) Yago Castro noted that there was a persistent shortage of skilled maintenance workers in Jamaica. He also stated that the company tackles this issue through its own CEMEX campus which trains engineers from local universities.
Engineer shortage plagues Carib Cement

Tropical Battery company Limited has formed a subsidiary, Tropical Mobility, a new electric mobility solutions company to serve the needs of the emerging electric mobility market in Jamaica and across the Caribbean.
Tropical Battery forms another subsidiary

Following an approximate 6.3% growth in real value added gross domestic product for the July-September quarter, the Planning Institute of Jamaica (PIOJ) has projected a further growth over the subsequent quarters and the remainder of the year.
Economy expected to continue positive growth trend

Fitch Ratings has affirmed New Fortress Energy Inc (NFE)'s BB- Long term Issuer Default Rating (IDR) and BB-/RR4 senior secured debt with a stable outlook. Fitch stated their ratings reflect NFE's increased scope and scale while diversifying the counterparties under long term contracts from the US$5.1 billion acquisitions of Hugo Energy, Golar LNG and power purchase agreements in Brazil.
Fitch affirms New Fortress Energy

Moody's Investors Service announced that it has affirmed the Government of Jamaica's long-term issuer and senior unsecured ratings at B2 while maintaining a stable outlook. The agency stated this reflected Jamaica's strong commitment to fiscal consolidation.
Moody's affirms Jamaica's B2 rating

Index	26/11/2021	19/11/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	391,220.36	386,813.17	395,614.93	1.14%	-1.11%
JSE Junior Market	3,371.57	3,348.31	2,643.38	0.69%	27.55%
JSE Combined Market	395,994.90	391,678.97	392,435.92	1.10%	0.91%
JSE USD Equities Market	196.55	195.92	186.30	0.32%	5.50%
JSE All Jamaican Composite Index	432,465.86	427,237.85	433,521.09	1.22%	-0.24%

INTERNATIONAL DEVELOPMENTS

Stocks declined for the shortened holiday week after news emerged in South Africa of a potentially more contagious, coronavirus variant. This triggered a sharp sell-off in risk assets such as equities. Yields decreased on Friday amid a flight to safe assets, which also fueled an outperformance of value relative to growth stocks. This news also aided a 10% decline in oil prices as there were fears that the new variant would damage demand.

Important news that occurred in the global market for the week include Biden renominating Powell as Fe chair. Powell is often seen as more dovish than the other leading candidate Lael Brainard. Comments from other Federal Open Market Committee (FOMC) members about the potential to accelerate tapering also helped to push treasury yields higher in the midweek before Friday's decline. Other important releases include the lowest level of weekly Jobless claims sine 1969 .

Global Markets Weekly Update | T. Rowe Price (troweprice.com)

The story for European equities was pretty much congruent with that of the US markets. Shares in Europe declined on fears that the economic recovery would be impeded by more strict coronavirus restrictions and the spread of the new variant. The main indexes of Germany, France, Italy, the Netherlands and Spain all tumbled.

Eurozone bond yields however ended the week flat after the coronavirus news had caused a pull back off the week's highs. Peripheral eurozone bond yields stayed higher on inflation and the prospects of central bank's tightening their policies.

Top 5 things to watch out for in the week ahead:

1. **New Pandemic Wave?:** Wall street's three main indices tumbled on Friday as they reopened from Thursday's thanksgiving holiday with energy, financial and travel-related stocks bearing the brunt of the sell off with this being sparked by the discovery of the new coronavirus strain.

2. **Jobs Report:** A robust November jobs report could underline the case for the Fed to speed up unwinding its 120 billion-a-month stimulus program at its next meeting in mid-December. Friday's non-farm payroll report for November is expected to show that the economy added 550,000 jobs.

3. **Oil Demand Outlook:** Oil prices plunged $10 a barrel on Friday the largest decline since April 2020 as news of the new Omicron variant saw countries rush to restrict travel. OPEC is due to meet on Thursday after last week's decision by the US and other Governments to release oil from strategic reserves in a bid to lower gasoline prices.

4. **Powell and Yellen Testimony:** Fed Chairman Jerome Powell is due to testify on the CARES Act, the central bank's pandemic-era stimulus program, before the Senate Banking Committee in Washington on Tuesday. Treasury Secretary Janet Yellen is also due to testify. Investors will be looking for fresh insights on the outlook for the economic recovery amid renewed pandemic uncertainty.

5. **Eurozone inflation:** The eurozone is to release flash inflation data for November on Tuesday. Consumer price inflation hit a 13-year high of 4.1% in October and is expected to stay above the ECB's 2% target into next year. Germany, Spain and France are to release CPI figures on Monday and Tuesday.

Index	26/11/2021	19/11/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,899.34	35,601.98	30,606.48	-1.97%	14.03%
S&P 500	4,594.62	4,697.96	3,756.07	-2.20%	22.33%
NASDAQ 100	16,025.58	16,574.46	12,888.28	-3.31%	24.34%
FTSE 100	7,044.03	7,227.64	6,460.52	-2.54%	9.03%
Euro Stoxx 50	4,089.58	4,356.47	3,552.64	-6.13%	15.11%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciate by 0.03% against the U.S. Dollar week on week to settle at $156.91 as at close of trade Friday, relative to $156.87 per US$1.00 at the end of the prior week. Year to date, the Jamaican has depreciated by 10.00%.

Interest Rates and Inflation

- On November 17, 2021, the Bank of Jamaica's Monetary Policy Committee (MPC) voted to increase its policy rate by 50 basis points to 2.0%. The justification was that this action was needed to curb the second round effects of recent shocks and to guide inflation back within the target range over the next two years. Inflation is projected to average 5.5 to 6.5% over the next two years. Inflation will also continue to breach the upper limit of the bank's target range over the next 10-12 months.

- As at October 2021, point-to-point was even higher at 8.5%, above the BoJ's inflation target upper bound of 6.0%.

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 4.21%, the FX Bond Portfolio has increased by 1.16%, the F.X. Growth Portfolio increased by 9.54%, the Real Estate Portfolio has decreased by 11.62% and the Capital Growth Fund has grown by 4.02%.

- 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 9.54% year to date.

- As at November 24th, 2021, the Capital Growth Fund has delivered a YTD return of 4.02%, which is above the 0.91% YTD growth of its benchmark, the JSE Combined Index.

- 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.

"Successful investing is about managing risk, not avoiding it."

– Benjamin Graham

Currency Pair	26/11/2021	19/11/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	156.91	156.87	142.65	-0.03%	-10.00%
JMD:CAD	122.67	124.07	111.41	1.12%	-10.11%
JMD:GBP	207.45	211.84	193.66	2.07%	-7.12%

Unit Trust

Unit Trust Fund	24/11/2021	18/11/2021	Week/Week Return	1-year Return	Year-to-Date Return	Yield
Capital Growth	88.29	91.03	-3.02%	6.40%	4.02%	-
Money Market	15.3987	15.2187	1.18%	3.89%	4.21%	2.60%
Income Portfolio	100.00	100.00	-	-	-	3.08%
FX Bond Portfolio (US$)	1.3720	1.3709	0.08%	3.52%	1.16%	2.11%
Real Estate Portfolio	5,156.85	5,132.19	0.48%	6.79%	-11.62%	-
FX Growth Portfolio	1.0938	1.0905	0.30%	12.84%	9.54%	-

Even the intelligent investor is likely to need considerable willpower to keep from following the crowd.

- Benjamin Graham

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Stock Ticket	Stock Information (As at November 26, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 19.66x P/B: 3.91x Price: J$ 16.71 Div Yield: 1.14%	**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: 13.89x P/B: 2.36x Price: J$ 4.78 Div Yield: 1.27%	**MARKETWEIGHT** Our expectation is for the Company to continue on its growth trajectory, supported by the improving economic backdrop of the global economy, which may manifest in increased domestic demand for goods and services. With increased stopover arrivals and planned reopening of key industries such as entertainment and education (face-to-face teaching), there are sufficient catalysts to spur further growth in 2021. However, this isn't without challenges as the global supply bottleneck will manifest itself in LASD's margins, requiring management to remain prudent in their working capital management such that higher imported inflationary pressures are not corrosive to the bottom line. Our MARKETWEIGHT recommendation balances our outlook on the company against the potential upside embedded in our estimate of fair value (as per Barita's July 15, 2021 equity report) for the company.
LASD Lasco Distributors	P/E: 11.80x P/B: 1.54x Price: J$ 3.06 Div Yield: 1.67%	**OVERWEIGHT** Our expectation is for the Company to continue on its growth trajectory, supported by the improving economic backdrop of the global economy, which may manifest in increased domestic demand for goods and services. With increased stopover arrivals and planned reopening of key industries such as entertainment and education (face-to-face teaching), there are sufficient catalysts to spur further growth in 2021. However, this isn't without challenges as the global supply bottleneck will manifest itself in LASD's margins, requiring management to remain prudent in their working capital management such that higher imported inflationary pressures are not corrosive to the bottom line.

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SGJ Scotia Group Jamaica Limited	P/E: 10.14x P/B: 0.94x Price: J$35.09 Div Yield: 3.99%	**MARKETWEIGHT** SGJ's growth has slowed, even prior to the pandemic. Consequently, within the context of the pandemic, the Group reported a considerable net profit decline of 31.4% in FY2020. Notwithstanding, the most recent performance demonstrates that coming out of the pandemic, the Group will report relative growth in FY2021, predominantly reflecting lower ECL, FX gains given SGJ's position in the FX market, and gains from the extinguishment of debt. Beyond FY2021, however, we expect a slowdown in growth, as ECL reduction is tempered relative to FY2021 and as the Group no longer benefits from a gain on extinguishment of debt. Importantly, we also consider the Group's strong liquidity, capital adequacy, and consistent dividend payout which is at an attractive yield of 3.58%. Given its strong balance sheet and consistently above-average dividend yield, we believe SGJ is a good dividend income stock.
VMIL Victoria Mutual Investments Limited	P/E: 13.44x P/B: 2.03x Price: $6.18 Div Yield: 2.59%	**MARKETWEIGHT** On balance, we believe the upside seen by VMIL in Q1 2021 potentially represents the most Year-over-Year (YoY) upside the company will realize in FY2021 and should be the main driver of improved YoY profitability for the 2021 financial year. However, we believe the market dynamics will weigh on YoY performance, unless there's a significant improvement in business origination, beyond prior years, on the back of a strengthening economy or increased capital that can then be deployed towards growth initiatives. With that said, our MARKETWEIGHT recommendation balances the risks that remain against the potential upside embedded in our estimate of fair value (as per Barita's July 16, 2021 equity report) for the company.
JMMBGL JMMB Group Limited	P/E: 7.24x P/B: 1.15x Price: $38.11 Div Yield: 0.66%	**OVERWEIGHT** Despite the low interest rate environment, net interest income growth remains possible in FY 2022 if the Group increases growth in deposits which is a lower cost funding than repurchase agreements Moreover, our positive outlook on the Group is underpinned by expected improvements in noninterest income and share of profits from a rebounding Sagicor Financial Company (Given the anticipated growth, we believe the market is pricing JMMBGL at a discount to our estimate of its fair value).

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SEP Seprod Limited	P/E: 16.10x P/B: 2.52x Price: J$61.66 Div Yield: 0.97%	**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: 12.19x P/B: 1.00x Price: $33.46 Div Yield: 2.35%	**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: 12.05x P/B: 1.00x Price: US$0.23 Div Yield: 3.40%	**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: 11.23x P/B: 0.77x Price: J$18.90 Div Yield: 1.90%	**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: 11.35x P/B: 0.78x Price: US$0.13 Div Yield: 1.94%	**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: 16.97x P/B: 4.71x Price: J$81.79 Div Yield: 0.00%	**OVERWEIGHT** On the heels of what has been a good year for the company, management expects demand to increase further, fueled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt. In the most recent quarter, profitability declined, largely on the back of poor weather conditions and the company's planned machinery maintenance. Notwithstanding the recent quarter, the Company's outlook remains positive.
LAB The Limners and Bards Limited	P/E: 19.70x P/B: 5.91x Price: J$ 3.35 Div Yield: 2.21%	**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/AFFO: 24.22x Price: J$40.40 AFFO Yield: 4.13%	**OVERWEIGHT** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.
MAILPAC Mailpac Group Limited	P/E: 22.85x P/B: 14.72x Price: J$ 3.43 Div Yield: 4.38%	**OVERWEIGHT** Having raised just under $500 million in its November 2019 junior market initial public offering (IPO), by March of 2020 the global economy was grappling with the COVID-19 crisis. This posed both a challenge and an opportunity for the Mailpac Group given the sudden and immediate need for e-commerce capabilities in light of social distancing and other non-medical interventions to reduce the spread of the virus. That the company was able to generate $1.7 billion in revenue during 2020 is demonstrative of the management's agility and competence of the company's leadership. They were able to pivot in building both scale and capacity, which are likely to sustain Mailpac's performance prospectively, given the likely scenario that e-commerce is likely to become more ensconced among Jamaica consumers, across various social classes.

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GENAC General Accident Insurance Company Ltd.	P/E: 13.47x P/B: 2.23x Price: J$ 6.60 Div Yield: 3.27%	**OVERWEIGHT** We see several possible tailwinds that may bode well for both the insurance sector as a whole and GENAC specifically. Namely, the increasing domestic interest rates. This should support improved investment income of insurance companies like GENAC who would be able to generate greater returns on their insurance float. This, coupled with greater operational efficiency after consolidating regional companies, should further aid profitability going forward. We also note that GENAC will continue to benefit from its relationship with the Musson Group which will allow them to form strategic relationships with both the group's other entities and customers. This will be particularly useful as the company expands into regional markets as the Musson group is diverse with stakes in public and private business across the Caribbean.

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