MAKING MONEY WORK FOR YOU.

Massy's Listing Shuffles the JSE's Market Capitalization

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ANALYST INSIGHT

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Stock Markets and Concentration Risk

A competitive economy will always have winners and losers. While some firms thrive, others may lag and this can reduce competition and dwindle creativity, resulting in increased profits and stock market capitalization for a small number of highly successful firms. As these firms become larger, their general power within the marketplace and the wider economy strengthens. In some nations, large companies can, for instance, use their influence to suppress new business and their access to capital, thereby increasing the barriers to entry in their respective industries.

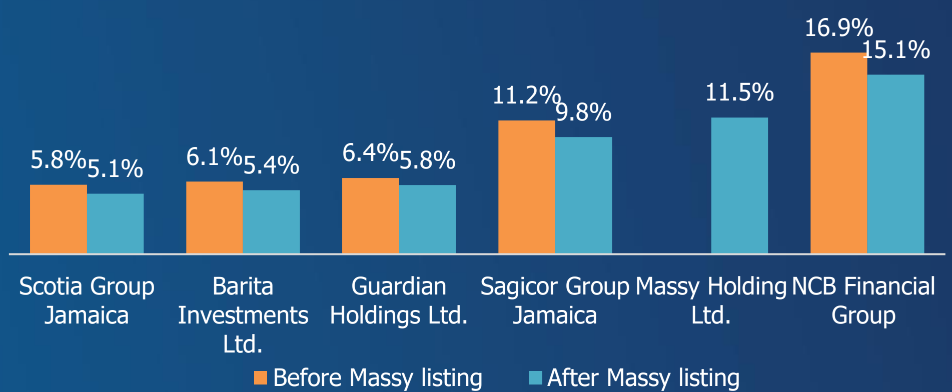
More specific to stock markets, however, the significant size of only a few companies relative to the overall market, places stock market indexes in a position where the market moves up, down, or sideways, depending on the performance of only a few companies.

Market Capitalization and the Jamaica Stock Exchange (JSE)

The JSE Market is in a position where there is considerable concentration risk among specific companies, particularly those within the financial sector. Looking at the twelve months ending Dec 31, 2021, we observe that both the Junior Market Index and the Manufacturing and Distribution Index performed well, delivering growth of 29.69% and 21.19%, respectively. However, despite their returns being over 20%, the combined index, which is a combination of several indices (including Junior and Manufacturing & Distribution) only increased by 2.22%. This was a result of the poor performance of the heavily weighted financial index which declined by 3.96% in 2021. As at January 28, 2022, the JSE's financial index accounted for 59.6% of the total stock market capitalization, which means the sector plays a significant role as it relates to the direction of the Combined Index.

Investors should note that while on the surface, the Combined Index has become more exposed to the financial sector given Massy's addition to the JSE's Financial Index, we argue that the opposite has happened, i.e., Massy has not only reduced the JSE's exposure to the financial sector but the Index's exposure to large financial companies like NCBFG, Sagicor, Guardian holdings, Barita, and Scotia to name a few. This can be seen in the graph below. Importantly, while Massy is considered a financial company because it is an Investment Holding Company, Massy's main exposure is not to financial services. Its main portfolios are Gas Products, Integrated Retail and Motors and Machines, so its exposure to the Financial Services industry is small while its true exposure is more so within the real economy, in industries such as medical oxygen, motor vehicles sales and rentals, supermarket operations etc. Consequently, the listing of Massy on the JSE is an important step towards not only regional integration but also a more robust and diverse stock market. Looking briefly at the S&P 500 index, we can see that the largest company, Apple, only has a weighting of 6.7% while NCBFG has a weighting of 15.1% in the Combined Index. This implies that while we have improved our position following the addition of Massy, more companies are needed to enhance the diversification of the Index which ultimately benefits investors.

Market Concentration Before and After Massy Listing (% of Combined Market)



Concluding Thoughts – Empirical Evidence

In conclusion, we must note that there has been empirical evidence to support the need for greater market diversification. According to Bae et al., "a stock exchange dominated by disproportionately large firms would be less sensitive to the needs of start-up firms to raise equity. This process inhibits the ideal cycle of competition, innovation, creative destruction, and economic growth, just as product market concentration can yield larger profits and valuation for winners rather than enhancing the economy as a whole." The research paper investigated the relations between stock market concentration and economic growth, capital efficiency, initial public offerings and innovation across 47 countries during the 1989 to 2016 period. Their key findings are that stock market concentration today is significantly and negatively related to economic growth five or even ten years in the future. The addition of Massy Holdings was a step in the right direction, a step to decrease our stock market concentration while providing diversification to our local market and promoting economic growth.

References: (Bae, K.-H., Bailey, W., & Kang, J. (2021). Why is stock market concentration bad for the economy? Journal of Financial Economics, 140(2), 436–459. https://doi.org/10.1016/j.jfineco.2021.01.002)

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market increased week-over-week. The JSE Combined Index increased by 1.26%, the Main Market Index increased by 1.09%, the JSE All Jamaican Composite Index increased by 0.63%, the JSE Junior Market Index increased by 3.07%, while the JSE USD Equities Index increased by 0.37%. During the week Paramount Trading Limited was the largest gainer, rising by approximately 46.10% to close at J$2.06. The biggest loser was Stanley Motta Limited which fell by 14.53% to close at J$5.00.

Year to Date, The Junior Market Index (7.81% YTD) and the Main Market counterpart (1.09% YTD)

As of Friday January 28, 2021, Overall Market activity resulted from trading in 117 stocks of which 55 advanced, 51 declined and 11 traded firm. Market volume amounted to 172,785,778 units valued at over $1,443,219,747.74. Wigton Windfarm Limited was the volume leader with 39,377,466 units (22.79%) followed by Stanley Motta Limited Ordinary shares with 20,229,206 units (11.71%) and Transjamaican Highway Limited with 8,833,306 units (5.11%) .

Revisiting relevant news during the week:

Thursday marked a monumental day in Jamaican history as Massy Holdings Limited cross-listed to the Jamaica Stock Exchange (JSE) at a market capitalization of $243.77 billion to make it the largest ever cross-listing in the Caribbean.
Massy lists

West Indies Petroleum Limited (WIP) last Friday closed the deal to acquire the Limetree Bay Refinery in St Croix for US$62 million.
Done deal

Despite the microfinance sector being impacted by the novel coronavirus pandemic and higher delinquency, ISP Finance Services Limited is still committed to growing the loan book via acquisitions and organic growth.
ISP hunts acquisitions

THE principals of venture capital outfit SSL Venture Capital (SSLVC) Limited are seeking to set the record straight regarding plans to offload the company, which remains insolvent. The principals of SSL Venture Capital say the deal is not done yet, arguing that the planned sale is in the preliminary stage of execution.
No done deal

PULSE Investments Limited, which this week placed on the market the residences of Villa Ronai, indicates that the units in the St Andrew development has secured “all required approvals”, including the Kingston and St Andrew Municipal Corporation (KSAMC) building approval, among others.
Pulse gets approval for Villa Ronai residences

After expanding the Caribbean Mezzanine Fund (CMF) into CMF II at the end of 2020, Stratus Alternative Funds SCC (Segregated Cellular Fund) has doubled its portfolio to four funds as the alternative investments continue to gain transaction across the region.
Stratus spreading wings across region

FOOD services distributor Caribbean Producers Jamaica Limited (CPJ) will be establishing a new CPJ Market outlet in Drax Hall, St Ann, by midyear, aiming to establish a new center for business-to-business operations. The Drax Hall store, set to open in summer 2022, will provide approximately 2,500 square feet of inventory supplies to restaurants, small hotels, villas and other small businesses involved in catering and food supply in the north coast locale.
Pulse gets approval for Villa Ronai CPJ boosts small business focus

Index	28/01/2022	21/01/2022	31/12/2021	Week/Week	Year-to-Date
JSE Main Market	400,464.81	396,141.35	396,155.61	1.09%	1.088%
JSE Junior Market	3,695.94	3,585.75	3,428.30	3.07%	7.81%
JSE Combined Market	407,769.80	402,676.78	401,130.23	1.26%	1.66%
JSE USD Equities Market	201.81	201.06	195.51	0.37%	3.22%
JSE ALL Jamaican Composite Index	442,008.68	439,257.71	438,328.37	0.63%	0.84%

INTERNATIONAL DEVELOPMENTS

US

Late gains helped the large-cap benchmarks move higher for the week, but not before most major indexes moved temporarily into correction territory or down more than 10% from recent highs. Volatility as measured by the Cboe Volatility Index (VIX) reached its highest level since the early months of the pandemic. Energy stocks rallied as international oil prices pushed above USD 90 per barrel, driven in part by the continued massing of Russian troops along the border with Ukraine. Fears that the Federal Reserve might be “behind the curve” and forced to raise short-term interest rates quickly to tame inflation weighed heavily on sentiment. The Fed’s monetary policy committee met during the week and kept interest rates steady, as expected. In his post-meeting press conference on Wednesday, however, Fed Chair Jerome Powell left open the possibility that policymakers would raise rates in 2022 more than the three quarter-point hikes they had signaled after their December meeting, with the first increase coming in March.

U.S. Treasury yields increased in response to the hawkish Fed signals, but T.Rowe Traders noted that the IHS Markit data of weaker output growth may have helped temper the rise, along with the tensions between the U.S. and Russia.

Europe

Shares in Europe fell for a fourth consecutive week, extending declines on rising concerns about interest rate increases and escalating tensions between Russia and the West. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 1.87% lower. The major indexes in Germany and Italy suffered similar pullbacks, while France’s CAC 40 Index slid 1.45%. The UK’s FTSE 100 Index slipped 0.37%. Yields on core eurozone, peripheral eurozone, and UK bonds increased on concerns over inflation and monetary policy tightening.

Global Markets Weekly Update

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

1. **U.S. jobs report:** The U.S. is to release the January nonfarm payrolls report on Friday with economists forecasting that the economy added 155,000 jobs, slowing from 199,000 in December as the Omicron variant hit. Indications of continued strength in the labor market could add to bets on how aggressive the Fed may be in tightening monetary policy in its battle to combat high inflation.
2. **Buy the dip?:** The steep slide in U.S. stocks in January has prompted some investors to begin looking at equity valuations to see whether now is a good time to snap up shares at bargain prices. The S&P 500 has dropped over 9% so far in 2022, while the tech-heavy Nasdaq stands in correction territory after a nearly 15% fall.
3. **Bank of England rate hike:** The BOE is expected to hike rates by another 0.25% at its upcoming policy meeting on Thursday, to curb inflation, which is running at its highest in thirty years. In December the BOE became the world's first major central bank to hike rates since the onset of the pandemic and market watchers will be keen to hear what Governor Andrew Bailey has to say about the future path of interest rates. The expected rate hike will also mean that the bank’s threshold to begin trimming its balance sheet will have been met and this could get underway as soon as March.
4. **Earnings:** Another large batch of earnings reports is due during the week, including from heavyweights Alphabet and Amazon, on Tuesday and Thursday, respectively. Tech stocks have come under pressure so far this year as investors have been more reluctant to pay hefty valuations for growth stocks amid rising yields as the Fed plans to tighten policy to tame inflation.
5. **Eurozone data, ECB meeting:** The Eurozone is to release data on fourth quarter GDP and January inflation figures ahead of Thursday’s ECB meeting. The GDP data is expected to show that economic growth slowed in the three months to December while inflation is expected to ease.The ECB is diverging from the Fed and the BOE, with prospects for a rate hike remaining distant.

Index	21/01/2022	14/01/2022	31/12/2021	Week/Week	Year-to-Date
Dow Jones	34,253.38	35,910.82	36,338.30	-4.62%	-5.74%
S&P 500	4,396.59	4,662.66	4,766.18	-5.71%	-7.75%
NASDAQ 100	14,433.19	15,606.71	16,320.08	-7.52%	-11.56%
FTSE 100	7,487.14	7,611.12	7,384.54	-1.63%	1.39%
Euro Stoxx 50	4,229.56	4,302.14	4,298.41	-1.69%	-1.60%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciated by 0.04% against the U.S. Dollar week on week to settle at $156.78 as at close of trade Friday, relative to $156.71 per US$1.00 at the end of the prior week. Year to date, the Jamaican has depreciated by 1.09%.

Interest Rates and Inflation

- On December 20, 2021, the Bank of Jamaica's Monetary Policy Committee (MPC) voted to increase its policy rate by 50 basis points to 2.5%. 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 December 2021, point-to-point was at 7.3%, above the BoJ's inflation target upper bound of 6.0%.

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 0.21%, the FX Bond Portfolio has decreased by 0.42%, the F.X. Growth Portfolio decreased by 7.11%, the Real Estate Portfolio has decreased by 2.21% and the Capital Growth Fund has declined by 0.56%.

- 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 declined by 7.11% year to date.

- As of January 26, 2022, the Capital Growth Fund has delivered a YTD return of -0.56%, which is below the 1.66% 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.

""The biggest risk of all is not taking one."

— Mellody Hobson

Currency Pair	21/01/2022	14/01/2022	31/12/2021	Week/Week	Year-to-Date
JMD: USD	156.78	156.71	155.09	-0.04%	-1.09%
JMD:CAD	124.52	125.17	122.76	0.52%	-1.43%
JMD:GBP	211.17	211.72	210.14	0.26%	-0.49%

Unit Trust

Unit Trust Fund	26/01/2022	20/01/2022	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	91.44	89.42	2.25%	-0.56%	6.91%	-
Money Market	15.257	15.1753	0.54%	0.21%	2.45%	0.87%
Income Portfolio	100.00	100.00	-	-	-	2.80%
FX Bond Portfolio (US$)	1.3725	1.3716	0.07%	-0.42%	1.39%	2.85%
Real Estate Portfolio	5,183.62	5,164.53	0.37%	-2.21%	-4.06%	-
FX Growth Portfolio	1.0051	1.0399	-3.35%	-7.11%	-0.52%	-

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

— George Soros

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Equities

Stock Ticket	Stock Information (As at January 28, 2022)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 20.62x P/B: 4.10x Price: J$ 17.53 Div Yield: 1.71%	**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: 13.69x P/B: 2.33x Price: J$ 4.71 Div Yield: 1.54%	**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. 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.
LASD Lasco Distributors	P/E: 12.31x P/B: 1.61x Price: J$ 3.19 Div Yield: 2.04%	**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). 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.

Ratings Definitions

OVERWEIGHT/BUY
Exposure to this asset should be between 5% and 10% of your total portfolio

MARKETWEIGHT/HOLD
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SGJ Scotia Group Jamaica Limited	P/E: 12.80x P/B: 0.95x Price: J$34.55 Div Yield: 4.49%	**MARKETWEIGHT** SGJ's growth has slowed, even prior to the pandemic. Notwithstanding, the most recent performance demonstrates that coming out of the pandemic, the Group will report relative strong growth predominantly reflecting lower ECL, FX gains given SGJ's position in the FX market, and gains from the extinguishment of debt. Beyond FY2022, 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 .Given its strong balance sheet and consistently above-average dividend yield, we believe SGJ is a good dividend income stock.
JMMBGL JMMB Group Limited	P/E: 7.39x P/B: 1.17x Price: $38.85 Div Yield: 2.19%	**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: 15.70x P/B: 2.46x Price: J$60.15 Div Yield: 2.16%	**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: 11.84x P/B: 0.98x Price: $32.49 Div Yield: 3.60%	**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: 11.93x P/B: 0.99x Price: US$0.23 Div Yield: 3.43%	**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: 9.29x P/B: 0.64x Price: J$15.64 Div Yield: 2.29%	**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: 10.45x P/B: 0.72x Price: US$0.12 Div Yield: 2.11%	**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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LAB The Limners and Bards Limited	P/E: 20.43x P/B: 6.16x Price: J$ 3.36 Div Yield: 3.27%	**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.
GENAC General Accident Insurance Company Ltd.	P/E: 12.45x P/B: 2.06x Price: J$ 6.10 Div Yield: 3.61%	**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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CPFV Eppley Caribbean Property Fund SCC	P/AFFO: 29.85x Price: J$42.20 AFFO Yield: 3.35%	**OVERWEIGHT** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.
MAILPAC Mailpac Group Limited	P/E: 21.67x P/B: 13.96x Price: J$ 3.25 Div Yield: 3.38%	**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 decent revenue during the pandemic 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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