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Analyst Insight

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Duration 101

Introduction - What is Duration?

Among the various risks associated with fixed-income securities, interest rate risk is one of the key factors that affect investors' risk and return. In its simplest terms, the duration of a bond measures the sensitivity of the bond's price to changes in interest rates, virtually serving as a measurement of interest rate risk. First, it's important to understand that interest rates and prices have an inverse relationship, thus they move in opposite directions. When interest rates rise, the prices of bonds fall, and vice versa. Duration can help estimate the likely change in the price of a bond given a change in interest rates. Generally, for every 1% (or 100 basis points (bps)) increase or decrease in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration (measured in years). For example, if a bond has a duration of 6 years, and interest rates increase by 100 bps, the bond's price will decline by approximately 6%. Conversely, if a bond has a duration of 6 years and interest rates fall by 100 bps, the bond's price will increase by approximately 6%.

Types of Duration (Macaulay vs Modified vs Effective Duration)

The Macaulay duration calculates the weighted average number of years an investor must maintain a position in the bond until the present value of the bond's cash flows equals the amount paid for the bond. Conversely, the modified duration measures the price sensitivity of a bond when there is a change in interest rates and serves as an extension to the Macaulay duration. As opposed to modified duration, effective duration measures a bond's price sensitivity with respect to a benchmark yield curve. Modified duration measures yield duration while the effective duration measures curve duration. The Effective Duration is often used when measuring interest rate risk for bonds with embedded options (callable and puttable bonds) because such bonds do not have a well-defined yield-to-maturity.

Dollar duration measures the dollar change in a bond's value to a change in the market interest rate, providing a straightforward dollar amount given a 100-bps change in rates.

Duration and the Investment Portfolio

When investing in bonds, an important consideration to factor in is the tenor of the bond, as generally, longer-term bonds carry a higher interest rate than shorter-term bonds. The higher a bond's coupon, the shorter its duration, because proportionately more payment is received before its maturity. On the other hand, the lower a bond's coupon, the longer its duration, because less payment is received before final maturity. Since a longer-duration bond requires more time for the issuer to pay back its debt, it will be more sensitive to interest rate fluctuations than a shorter-duration bond.

When interest rates rise, bonds with a longer duration are more affected than those with a shorter duration. This is because investors who want to sell their longer-dated bonds will receive a lower price in the secondary market as its current interest rate becomes less attractive amidst higher prevailing interest rates. Conversely, when interest rates fall, the price of longer-duration bonds increases more than the price of shorter-duration bonds. This is due to longer-term bonds being more attractive, as investors look to lock in higher rates amidst a decreasing interest rate environment.

Duration can be an extremely useful tool for risk and overall portfolio management when building bond portfolios. Investors can adjust their bond portfolio's average duration as their views on interest rates change. If the investment view/outlook considers a fall in interest rates in the near to medium term, then the investor could consider lengthening the duration of their portfolio to benefit from a potential increase in bond prices. On the other hand, If the outlook sees interest rates moving upwards, an investor can shorten the duration of their portfolio to mitigate or protect against portfolio volatility. Importantly, investors who are expecting to hold bonds until their maturity, are less affected by short-term price volatility due to duration, as barring no negative changes in the issuer, the investor will receive par upon maturity. These long-term horizon investors have greater exposure to reinvestment risk.

Conclusion

Duration is a way of expressing the weighted average term to maturity of all the bonds in your fixed-income portfolio. The greater the proportion of long-term bonds in an investor's portfolio, the more it will be affected by interest rate movements. When making investment decisions, investors need to be aware of the duration of their current bond holdings as well as the interest rate environment. If an investor's portfolio is heavily weighted towards longer-term bonds, a rise in interest rates could lead to price volatility. Conversely, if an investor has a portfolio that is weighted towards shorter-term bonds, a rise in interest rates would have less of an impact, all things equal. By understanding duration, an investor can more effectively structure the interest rate sensitivity of his/her bond portfolio as it relates to the overall investment objectives and risk tolerance.

Investment Playbook

EQUITIES

Stock Ticker	Stock Information (as at May 12, 2023)	Comments
WISYNCO Wisynco Group Limited	P/E: 13.63x P/B: 3.14x Price: $17.31 Div Yield: 2.31%	**OVERWEIGHT** Throughout the pandemic, Wisynco has managed to improve its operational efficiency but given the effects of COVID-19 on industries such as tourism and education, the Company was unable to deliver significant revenue growth. Now, with tourism rebounding and schools operating at a greater level, Wisynco has married its improved operational efficiency with stronger revenue growth, allowing for significant net profit growth. As tourism is expected to continue growing towards its pre-pandemic level of output, we expect Wisynco to continue to perform well. Wisynco Equity Report
JMMBGL JMMB Group Limited	P/E: 7.45x P/B: 1.19x Price: $29.28 Div Yield 0.85%	**OVERWEIGHT** Given its relatively low P/E ratio and considering the Group's consistently strong performance throughout the pandemic, the market has been underpricing JMMBGL significantly relative to its local counterparts. JMMBGL's price has declined by 5.8% YTD which provides investors with an opportunity to acquire JMMBGL shares at a more attractive price. The long-term outlook for the company and the stock remains favorable, buoyed by an expanding regional footprint. In July JMMBGL closed on its acquisition of a commercial bank in the Dominican Republic (DR) which now enables the company to offer a full range of financial services in the market. The DR operations currently contributes 17% of net operating revenue and we will be keen to watch the effect of the expansion to JMMBGL's performance over the next few quarters. JMMB Equity Report
MASSY Massy Holdings Limited	P/E: 0.10x P/B: 1.23x Price: $99.09 Div Yield 3.54%	**OVERWEIGHT** Massy Holdings Limited. (MHL, Massy), through its portfolio companies, engages in trading, manufacturing, distribution, and service industry businesses throughout the Caribbean region. The company operates through three portfolios: Integrated Retail, Gas Products, Motors, and Machine and two business lines: Financial Services, and Strategic and Other Investments. In financial year 2020, Massy transitioned from a Conglomerate to an Investment Holding Company. By so doing, Massy's strategy has changed, with the Group focusing mainly on its core portfolios. These core areas of the business represent Massy's competitive advantages, are well-positioned to scale, and are therefore expected to drive strategic growth going forward. Massy Equity Report

Ratings Definitions

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

UNDERWEIGHT
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Investment Playbook

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LASD Lasco Distributors	P/E: 8.13x P/B: 1.19x Price: $2.68 Div Yield 3.36%	**OVERWEIGHT** Lasco Distributors has continued its growth trajectory, displaying resilience throughout the pandemic, and we expect this to continue post-pandemic supported by the improving economic backdrop of the global economy. As continued domestic demand for goods and services remain strong, the company is also looking to strengthen its exports as well as continue to launch new product lines. However, this isn't without challenges as global supply shocks has affected LASD's gross margins. In response, management has prudently managed operational costs such that higher imported inflationary costs has not completely eroded the bottom line, resulting in continued growth. Lasco Distributors Equity Report
SCIJMD/SCIUSD Sygnus Credit Investments	P/E: 10.32x / 16.04x P/B: 0.65x / 1.01x Price: $11.45 / $0.12 Div Yield: 3.50% / 2.24%	**OVERWEIGHT** Sygnus' business model is built on providing capital and direction to the underbanked, targeting the middle market. To accomplish this, the Company has executed several capital raises involving equity, preference shares and debt raise. Sygnus has demonstrated their commitment to growth and being the market leader in the regional private credit space with their acquisition of a Puerto Rico-based, private credit firm, Acrecent Financial in Q3 of their financial year. This acquisition has significantly added to the group's income and overall profitability. The stock trades at significant discount relative to peers both from a P/E perspective and a P/B perspective. At present, given Sygnus' strong current and expected future growth, the market is pricing Sygnus at a steep discount to its book value per share. Sygnus Credit Investments Equity Report
TROPICAL Tropical Battery Limited	P/E: 13.42x P/B: 2.52x Price: $2.04 Div Yield 0.98%	**OVERWEIGHT** Tropical Battery has been aggressively pursuing revenue diversification strategies, to reduce its dependence on auto battery and accessory sales. This is evident by the company's recent launch of three new subsidiaries aimed at providing renewable energy solutions for commercial customers. In addition, the company recently implemented a new inventory management system that has yielded improved operational efficiencies in addition to targeted sales initiatives that have improved revenue growth. We believe that the Company will continue to grow as they build out new revenue lines, improve operational efficiencies and drive targeted sales initiatives. Tropical Battery Equity Report

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PROVENJMD/ PROVENUSD Proven Group Limited	P/E: 22.81x / 23.45x P/B: 0.93 / 0.90x Price: $26.00 / $0.18 Div Yield: 3.12% / 2.96%	**OVERWEIGHT** Proven has shown a decline in profitability throughout the current financial year, a performance driven by lower share of earnings of associates and higher operating expenses. The company continues to demonstrate its appetite for growth through acquisitions as evidenced by the recent 100% acquisition of Fidelity Bank (Cayman). The company has a history of acquiring companies with accretive value. We expect that profit margins will improve in the future as one-off spending related to recent acquisitions pass.
LUMBER Lumber Depot Limited	P/E: 10.90x P/B: 2.95x Price: $2.29 Div Yield 2.27%	**OVERWEIGHT** Lumber represents an option to gain exposure to the construction sector which has been a relatively resilient and fast-growing sector. With this sector tailwind, lumber has shown strong revenue growth since its 2019 listing and the financial year 2022 revenue and net profit are 10.1% and 26.8% higher than financial year 2021 revenue and earnings, respectively. We are still monitoring how the company progresses given the loosening of restrictions and continued growth in the construction sector. We also note that despite the growth it has shown over the last 2 years, the stock still trades at an attractive PE compared to Junior market peers. Lumber Depot Equity Report
LAB The Limners and Bards Limited	P/E: 25.00x P/B: 3.88x Price: $2.25 Div Yield 4.02%	**OVERWEIGHT** The LAB saw strong demand for its services throughout the pandemic, with revenue growth of 35% in FY2021. For the latest financial year revenue grew by approximately 10%, an indication of continued demand for the Company's services. However, net profit declined by 7% primarily due to higher administration costs, currency translation losses and losses on "SCOPE Caribbean". To date, SCOPE has not been profitable which has negatively impacted the Lab's net profit growth. This is not abnormal for a new business, and we expect this should turnaround as the business scales. The 2022 FY was the first full operational year for SCOPE, which saw take up of its services offered while it continues to explore additional revenue streams. With the LAB consistently positive operating cash flows and a current cash balance that is 1.64x larger than the Company's current liabilities, we believe the Lab is poised to invest its capital efficiently towards further growth. The LAB Equity Report

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JBG Jamaica Broilers Group Limited	P/E: 7.42x P/B: 1.67x Price: $34.20 Div Yield 1.96%	**OVERWEIGHT** JBG's financial performance has rebounded nicely from the lows seen in FY2020, driven by the recovery in the Jamaican economy and tourist arrivals, coupled with JBG's growing presence in the US market and the increasing production of the Best Dressed Chicken line of products. The loss making Haiti operation has been discontinued which should contribute to improved margins in the coming quarters. Positive results from expansion into the United States and recovery in Jamaican operations, along with stringent cost control have contributed to the surge in profitability in the first half of the 2023 financial year. Jamaica Broilers Group Equity Report
SEP Seprod Limited	P/E: 15.57x P/B: 1.82x Price: $71.00 Div Yield 2.11%	**OVERWEIGHT** Seprod saw its financial performance surge for the 2022 financial year, owing to the strategic acquisition of AS Bryden, with revenues and net profit growing by 82% and 93% respectively. Going into the 2023 financial year, we expect easing of supply chain pressures, stability in commodity prices, and further consolidation of profits from AS Bryden to further lift net profits. Along with new products, Seprod also plans to aggressively target growth in export markets and is currently in the process of making necessary investments to increase capacity of its margarine plant. Seprod Limited Equity Report
LASM Lasco Manufacturing	P/E: 9.23x P/B: 1.66x Price: $4.18 Div Yield 2.39%	**OVERWEIGHT** We expect that the Company's growth trajectory will be sustained, however, in the short term, the financial results have seen an impact from the overall macroeconomic conditions since the pandemic. Margins across the board have been compressed despite record profitability in 2022. Despite continued record tourism arrivals and growth in key sectors such as entertainment, steps need to be taken to restore margin progression. Against this backdrop it is notable that inflationary pressures and supply issues that plagued the company from 2022 to the first quarter of this year will likely begin to ease in the spring of 2023, suggesting a rebound in net profit growth for the company moving forward beyond FY 2023. Plans to further expand its geographical footprint by driving the contribution of export to its revenue will be value-added to the long-term sustainability of the Company's operations Lasco Manufacturing Equity Report

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Investment Playbook

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GK GraceKennedy Limited	P/E: 10.53x P/B: 1.05x Price: $78.79 Div Yield 2.56%	**MARKETWEIGHT** For the year ended December 31, 2022, GK reported significant top-line growth, however, margin deterioration contributed to a decline in the bottom line. Revenues increased by 10.5% while profits saw a 15.1% decline of flat as operating expenses grew at a faster rate than revenues. The company cited challenges presented by high inflation globally, sustained supply chain issues, increasing interest rates, and foreign currency volatility as issues that have affected profit margins. GK continues to advance its merger & acquisition (M&A) strategy, after it increased its stake in Catherine's Peak Bottling Company Limited in the first quarter of 2023 to move its ownership stake from 35% to 70%, thus granting them a stronger position in the spring water market. The company continues to seek M&A transactions locally and internationally. These acquisitions stand to add more diversity and growth to the company's earnings. GraceKennedy Group Equity Report
MAILPAC Mailpac Group Limited	P/E: 16.75x P/B: 8.7x Price: $2.01 Div Yield 8.46%	**MARKETWEIGHT** During the peak periods of the pandemic, MAILPAC benefited immensely as online shopping became a larger share of shoppers' wallets. In large part, this period of heavy demand driven by pandemic restrictions has passed and while we anticipate online shopping will remain integral for the everyday consumer, the outsized growth we witnessed in FY2020 and FY2021 will not be repeated. Admittedly, the Company has a robust balance sheet with more cash than total liabilities which we believe places MAILPAC in a position to make growth-inducing investments. However, the current slowdown in demand and consequently revenue and profit growth underscores our MARKETWEIGHT recommendation Mailpac Group Equity Report
SGJ Scotia Group Jamaica Limited	P/E: 8.76x P/B: 1.01x Price: $34.08 Div Yield 4.11%	**MARKETWEIGHT** The greatest driver of profitability in FY2021 was the reduction of Expected Credit Losses (ECL) relative to the previous year as the economic backdrop improved. Scotia is not likely to have this benefit recur to the magnitude it did in FY2021. The group has made an accelerated effort to digitize its business in line with its digital strategy to drive efficiency and better service customer needs. SGJ is looking to further consolidate its operations and funnel investments in core operations through technology and talent, while also looking to enter new markets and launch new products. Scotia has two major positives. The first is that the current rising interest rate environment supports the Group's bank model, more so than other listed financial institutions. The second is that SGJ is a consistent source of relatively attractive dividends which makes the Company a good asset for investors with a clear preference for income. Scotia Group Equity Report

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FTNA Fontana Limited	P/E: 14.26x P/B: 4.19x Price: $8.70 Div Yield 2.30%	**MARKETWEIGHT** Fontana has been growing and expanding since listing on the junior exchange in 2019. The Company has plans to expand, which include a new outlet to bring its footprint to a total of seven locations. In its most recent quarter, Net Profit saw a 32.7% increase over the same quarter in the prior financial year. Further, the cost of sales has been impacted given the current inflationary environment and is likely to continue being affected in the near to medium term. However, the company continues to grow organically and is financially positioned to do so. Due to the current environment and increased finance costs, profitability could dampen in the near term but in the long term, the addition of its new outlet could support growth. On balance, the Company has both significant risks and the potential for upside, which underscores our recommendation. Fontana Equity Report
SVL Supreme Ventures Limited	P/E: 26.54x P/B: 11.69x Price: $27.66 Div Yield 3.36%	**MARKETWEIGHT** Supreme Ventures is the market leader in the lottery and gaming industry. The company has also in recent years embarked on an aggressive growth strategy through several acquisitions (Champion Gaming and Post To Post Betting). The company would have been impacted by the pandemic as the lockdown measures impacted its operations at Caymanas Park. With the easing of restrictions, the Company should benefit from an easing of lock down restrictions and a normalization of business. Despite this, in the medium term we note that the company now has competition in the lottery segment of the market which may negatively impact margins. The degree to which this might impede the pace of revenue growth will however depend on the take up of new games such as Scratchaz which, at present, seems popular amongst younger consumers as it is a new addition to the Company's product offerings. Supreme Ventures Equity Report
ECL Express Catering Limited	P/E: 20.58x P/B: 10.44x Price: $5.10 Div Yield: N/A	**MARKETWEIGHT** ECL has seen improved performance as the tourism industry rebound, following the pandemic, has been robust. However, the Company is not currently operating at pre-covid efficiency levels, as price increases due to the current global supply chain challenges have driven higher costs across all product categories. While we do expect the tourism industry to continue to recover, driving ECL's revenues to grow and likely surpass pre-covid levels by FY2023/FY2024, the inflationary pressures can not be ignored. Longer-term we do expect the company to reap the benefits of their expanded footprint within the Sangsters International Airport as well as the return to trend growth in stopover arrivals. ECL Equity Report

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Monitoring List

EQUITIES

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MDS Medical Disposable Supplies	P/E: 12.82x P/B: 1.12x Price: $5.00 Div Yield: N/A	Medical Disposables and Supplies have quietly been diversifying its revenue streams over the last 2 years. This is inclusive of its purchase of 60% of Cornwall Medical and Dental Supplies(CMDL) which has been consolidated into the company's financials as of their second quarter 2021. This increases the company's exposure to the dental supplies space and expands their reach into the western end of the island. The company has also shifted to providing more confectionary products and we believe its expansion and diversification efforts are worth watching.
SOS Stationery & Office Supplies Limited	P/E: 15.00x P/B: 3.46x Price: $15.45 Div Yield 1.17%	Stationery and Office Supplies presents investors with another option to benefit from the reopening of the domestic economy. A core segment of their business would have suffered from the lockdown measures and work from home, namely the sale of furniture and its SEEK line of books. However, during that period stationary sales have done well to fill that revenue gap. With the resumption of economic activity, the return to office and the expansion in the BPO sector, SOS might be a large beneficiary in 2022.
SJ Sagicor Group Jamaica Limited	P/E: 11.82x P/B: 1.70x Price: $49.53 Div Yield 3.24%	Sagicor Group Jamaica Limited would have been adversely impacted by the pandemic even more so than the typical financial sector company due to their exposure to the tourism sector. This would have therefore led to sizeable impairment losses on their investment in associated companies (I.e., Playa Hotel and Resorts). For 2022 we therefore expect to see some amount of recovery as the group has disposed of their investments in Playa which will stem impairment losses while simultaneously still having direct exposure to travel through their US resort (The Hilton DoubleTree) while their banking services should benefit from a pickup in economic activity.

***The "Monitoring List" represents stocks that are on our radar as our initial expectation for these companies is positive. However, no official recommendation is presented as these stocks are still being evaluated.*

Investment Playbook

EQUITIES

Stock Ticker	Stock Information (as at May 12, 2023)	Comments
VMIL Victoria Mutual Investments Limited	P/E: 7.72x P/B: 1.76x Price: $3.58 Div Yield: 0.00%	**OVERWEIGHT** Victoria Mutual has recently rebranded under the "VM Group". By association, there has been implications for VMIL. For example, the Company has been significantly more active in the capital markets through its investment banking arm. We expect continued growth in the investment banking space will add considerable value to the Company's bottom line which has already shown clear improvement throughout FY2021. VMIL Equity Report

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Unit Trust

Unit Trust Fund	12/05/2023	05/05/2023	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	79.7358	80.9	-1.44%	-16.78%	-23.34%	-
Money Market	15.7918	15.777	0.09%	1.65%	4.68%	4.66%
Income Portfolio	100	100	-	-	-	5.33%
FX Bond Portfolio (US$)	1.3585	1.3675	-0.66%	1.31%	1.00%	4.79%
Real Estate Portfolio	12,293.40	12,254.27	0.32%	54.90%	2245.55%	-
FX Growth Portfolio	0.8778	0.8766	0.14%	3.79%	-1.83%	-
FX Income Accumulator	1.0088	1.0126	-0.38%	0.75%	-	2.42%

“Someone's sitting in the shade today because someone planted a tree a long time ago.”

Warren Buffett

LOCAL EQUITY MARKET

For the week ended May 12, 2023, the local stock market as measured by the Combined Index declined by 0.31%. The Main Market Index declined by 0.35%, the Junior Market Index advanced by 0.04%, and the JSE USD Equities Index advanced by 0.72%. During the week, Caribbean Assurance Brokers Limited Ordinary Shares was the largest gainer, rising by approximately 33.17% to close at $2.65. The biggest decliner was Eppley Caribbean Property Fund which fell by 17.91% to close at $36.08.

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Small-cap stocks, reflecting those listed on the Junior Market Index have outperformed on a YTD basis, declining by 5.54%, relative to its Main Market counterpart which has declined by 6.23%.

For the week ended May 12, 2023, overall market activity resulted from trading in 126 stocks of which 47 advanced, 66 declined and 13 traded firm. Market volume amounted to 75,574,598 units valued at over $299,253,275.51. Wigton Windfarm Limited was the volume leader with 215,379,185 units (20.08%), followed by Transjamaican Highway Limited with 12,195,756 units (15.92%) and then One On One Educational Services Limited with 4,308,791 units (5.63%)

Revisiting relevant news during the week:

JPS applies for new electricity rates

The Jamaica Public Service Company (JPS) has applied for its annual tariff adjustments with a proposal for a 0.8 per cent increase in rates for residential customers while some commercial customers rate will only go up by 0.2 per cent. Other commercial and industrial customers could see reductions above 2.3 per cent, the JPS said.

JPS applies for new electricity rates

An investment in the poultry industry

Jamaica Broilers Group (JBG) has spent over $200 million — approximately US$1.5 million — on the rehabilitation and expansion of the Best Dressed Chicken hatchery in Cumberland, Portmore, in response to growing demand for table eggs and poultry.

An investment in the poultry industry

Consolidated Bakeries rebounds

Chairman of Consolidated Bakeries (Jamaica) Limited (CBL) Anthony Chang believes that the company's strategies are paying off with the results being a significant increase in revenues and a return to profitability after a reported loss in 2021.

Consolidated Bakeries rebounds

FosRich lights up first quarter performance

After surpassing the billion-dollar mark in quarterly revenues for the first time ever during the January-March period, lighting, electrical and solar energy products distributor FosRich Limited said it remains on the hunt for more growth opportunities throughout this year.

FosRich lights up first quarter performance

NCBFG expanding financial inclusion with NIDS pilot

NATIONAL Commercial Bank Jamaica Limited (NCBJ) has received approval from the Bank of Jamaica (BOJ) to develop and test three proof of concepts leveraging the national identification system (NIDS) which is currently in the pilot phase.

NCBFG expanding financial inclusion with NIDS pilot

GK taps Unicomer and Lynk to expand remittance services

GraceKennedy Limited (GK) has named Unicomer Jamaica Limited and digital wallet Lynk as two of the latest partnerships through which it will be pushing growth for its remittance business.

GK taps Unicomer and Lynk to expand remittance services

Index	12/05/2023	05/05/2023	31/12/2022	Week/Week	Year-to-Date
JSE Main Market	333,707.63	334,870.71	355,896.64	-0.35%	-6.23%
JSE Junior Market	3,765.62	3,764.13	3,986.44	0.04%	-5.54%
JSE Combined Market	345,848.11	346,914.00	368,591.98	-0.31%	-6.17%
JSE USD Equities Market	239.48	237.77	233.97	0.72%	2.36%
JSE Financial Index	75.37	76.69	85.88	-1.72%	-12.24%
JSE M&D Idex	98.95	97.76	97.42	1.22%	1.57%

INTERNATIONAL DEVELOPMENTS

U.S.

Benchmarks end mixed as investors weigh inflation data

The major indexes ended mixed for the week as the flow of first-quarter earnings reports neared its end. The technology-heavy Nasdaq Composite outperformed, helped by a surge in Google parent Alphabet following the unveiling of its new artificial intelligence-based search platform. The narrowly focused Dow Jones Industrial Average lagged, weighed down by Disney, following its report of a decline in subscribers to its streaming platform, Disney+. Financials stocks underperformed, dragged lower by ongoing concerns over the strains facing certain regional banks. T. Rowe Price traders noted that trading volumes were thin and approached their lowest level of the year so far to start the week.

Supercore inflation falls to lowest level since early in the pandemic

Core inflation, which excludes volatile food and energy prices, was in line with expectations over the period, rising 5.5%. However, “supercore” inflation, which, depending on the definition, measures services inflation less housing costs and is rumored to currently be the Federal Reserve’s preferred gauge, rose only 0.1% for the month—the lowest reading in nearly three years, according to Reuters. Fed officials have acknowledged that the Labor Department’s methodology for calculating “owner’s equivalent rent” (OER) means that the cooldown in the housing sector is not fully reflected in current inflation data.

Pinkerton: Debt ceiling extension possible, but only with strings attached

T. Rowe Price Washington analyst Michael Pinkerton still believes that the most likely outcome is a compromise deal with spending caps, modest near-term budget concessions from Democrats, and an 18- to 24-month debt ceiling extension. However, he sees an increasing likelihood of an agreement on a topline budget cut, followed by a short-term debt ceiling extension to allow further negotiations on where the specific cuts will come. Pinkerton stresses that a simple extension with no conditions attached is highly unlikely, and both President Joe Biden and House Speaker Kevin McCarthy disavowed any intention for one following their meeting on Wednesday.

Europe

The European government bond yields declined after the European Central Bank (ECB) raised interest rates by a quarter of a percentage point, scaling back from previous half-point increases. The yield on benchmark 10-year German government debt fell near one-month lows. In the UK, yields were broadly unchanged, holding near one-month peaks at around 3.8% as investors braced for more policy tightening from the Bank of England.

ECB’s Lagarde hints at more rate increases

ECB President Christine Lagarde said in an interview with the Nikkei newspaper that the central bank “has moved in a very deliberate and decisive way in order to fight inflation," adding, however, that "we still have more ground to cover." She said that “there are factors that can induce significant upside risks to the inflation outlook” and that “we are still in a situation where uncertainty about the path of inflation is high, so we have to be extremely attentive to those potential risks.” Lagarde’s comments echoed the views hawkish policymakers have expressed since last week's quarter-point rate increase.

Economist Wieladek says ECB deposit rate could exceed forecast peak

Tomasz Wieladek, T. Rowe Price’s chief European economist, asserted that the ECB could raise its deposit rate beyond the peak 3.50% level currently expected by the market. Persistently strong inflationary pressures support hiking rates in the short term, in his view. Wieladek believes services inflation, a key focus for the Governing Council, is likely to stay elevated due to fundamental factors. However, he also suggested that the ECB may stay its hand if the U.S. is unable to make progress in debt ceiling talks.

Japan

Signs of strength in corporate earnings supported Japan’s stock markets over the week, with the Nikkei 225 Index rising 0.8% and the broader TOPIX Index up 1.0%. Some concerns about China’s economic growth, as well as the U.S. debt ceiling and potential default, dented sentiment, however. Data released during the week showed that wage growth remained sluggish in March, supporting the Bank of Japan’s (BoJ’s) dovish stance. Against this backdrop, the yield on the 10-year Japanese government bond fell to 0.39% from 0.42% at the end of the previous week. The yen strengthened modestly, to around JPY 134.75 against the U.S. dollar, from the prior week’s JPY 134.85.

T.RowePrice

Index	12/05/2023	05/05/2023	31/12/2022	Week/Week	Year-to-Date
Dow Jones	33,300.62	33,674.38	33,147.25	-1.11%	0.46%
S&P 500	4,124.08	4,136.25	3,839.50	-0.29%	7.41%
NASDAQ 100	13,340.18	13,259.13	10,939.76	0.61%	21.94%
FTSE 100	7,754.62	7,778.38	7,451.74	-0.31%	4.06%
Euro Stoxx 50	4,317.88	4,340.43	3,793.62	-0.52%	13.82%

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