

JMMB Local Equities 2020 Outlook

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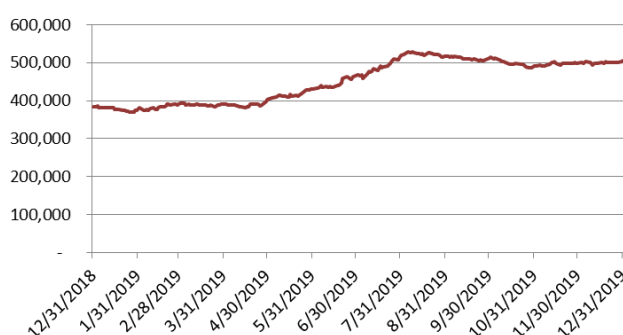
2019 Jamaican Equities Market Summary

The Local Equities Market continued its bull run in 2019. The JSE Combined Index moved from 384,556.48 points as at Dec. 31, 2018, to 505,253.98 points as at Dec. 31, 2019. This performance represents a 31.39% year-over-year improvement, which was mainly due to the performance of the Main Market Index.

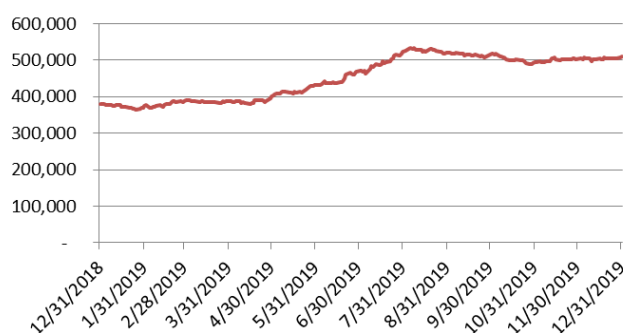
The Main Market Index rose by 34.26% in the 2019 calendar year, increasing by 130,125.61 points to 509,916.44 points. This follows a 31.70% advance in the 2018 calendar year. Twenty-six (26) stocks advanced, ten (10) declined and zero (0) traded firm.

Seven companies were listed: Eppley Caribbean Property Fund Limited SCC; Margaritaville (Turks) Limited¹; MPC Caribbean Clean Energy Limited; QWI Investments Limited; Sagicor Select Funds Limited - Manufacturing & Distribution; Sagicor Select Funds Limited – Financial; and Wigton Windfarm Limited.

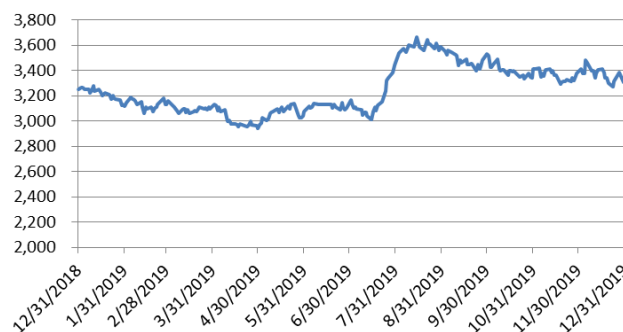
JSE Combined Index 2019 Performance



JSE Main Market Index 2019 Performance



JSE Junior Market Index 2019 Performance



¹ Cross-listed onto the Main Market Index

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Main Market

Top Gainers	Change	Open	Close
Jamaica Stock Exchange Limited	168.81%	\$10.26	\$27.58
Victoria Mutual Investments Limited	138.30%	\$3.76	\$8.96
Sygnus Credit Investments Limited (SCIJMD)	136.83%	\$10.97	\$25.98
Top Losers			
Sagicor Real Estate X Fund Limited	(33.97%)	\$14.07	\$9.29
Kingston Wharves Limited	(20.69%)	\$77.19	\$61.22
Berger Paints (Jamaica) Limited	(17.95%)	\$21.95	\$18.01

Trading improved greatly on the Main Market from the previous year as the volume of shares traded increased by 171.55% to 8.72B while the value of trades rose 40.06% to \$91.76B. This can be explained by both further growth in interest in the equities market and the addition of the newly listed companies. The number of transactions rose 103.19% to 123,562. Market capitalization as at Dec. 29, 2019 stood at \$1.93T, up from \$1.38TB as at Dec. 31, 2018, a 39.5% increase year-over-year. Average daily volume was 34,889,480 shares while the average daily value was \$367,047,225, up from 12,797,039 and \$261,013,516 in 2018, respectively.

The Junior Market Index rose by 3.15% in the 2019 calendar year, increasing by 102.15 points to 3,348.96 points. This follows an 18.84% increase in the previous year. Thirteen (13) stocks advanced while twenty-three (23) declined. Five companies were listed during the year: Fontana Limited; ICreate Limited; Lumber Depot Limited; Mailpac Group Limited; and the Limners and Bards Limited.

Junior Market

Top Gainers (YTD)	Change	Open	Close
General Accident Insurance Company Limited	100.56%	\$3.54	\$7.10
Honey Bun (1982) Limited	85.38%	\$3.90	\$7.23
Elite Diagnostic Limited	70.89%	\$2.92	\$4.99

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Top Losers (YTD)

K.L.E. Group Limited	(44.44%)	\$3.15	\$1.75
Jetcon Corporation Limited	(44.41%)	\$3.04	\$1.69
Dolphin Cove Limited	(41.70%)	\$16.50	\$9.62

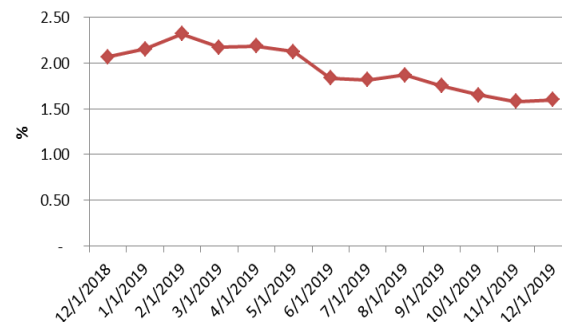
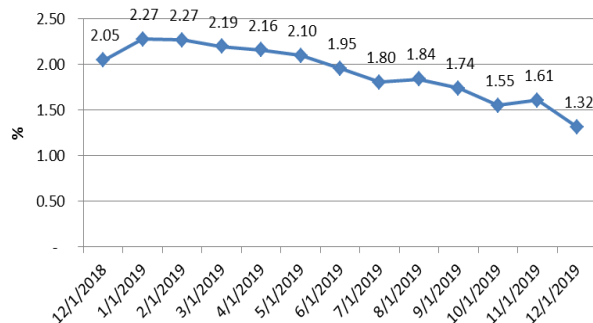
Trading also improved significantly from the prior year as the volume of shares traded increased by 148.87% to 2.87B while the value of shares traded rose 68.37% to \$9.39B. Market capitalization as at Dec. 31, 2019 stood at \$151.36B, up 8.28% from \$139.78B as at Dec. 31, 2018. The average daily trading volume was 11,490,356 shares, more than double 2018's average daily trading volume of 4,598,662 shares. The average daily trading value for the Junior Market was \$37,565,525.54 versus \$22,222,484.87 in 2018.

Investors continued to gravitate to the equity market in 2019 in search of attractive returns as the yields on fixed-income securities remain at historical lows. Despite volatility in the domestic currency market, Jamaica's economic fundamentals remained positive and has benefitted from a relatively stable external economic environment.

The Bank of Jamaica estimated growth of 0.9% in real GDP in 2019, below the 1.9% growth rate observed in 2018. This slowdown was driven by declines in the construction and mining industries, due to the temporary closure of the Alpart alumina plant and the completion of various road rehabilitation projects. Manufacturing and tourism, on the other hand, recorded significant expansion on the back of food pro

The Bank of Jamaica 3-month T-bill rate as at Dec. 2019 was 1.32%, down 73 basis points from its rate of 2.05% as at Dec. 2018. The 6-month T-bill rate close the year at 1.60%, down 47 basis points from the rate of 2.07% a year prior. These movements reflected elevated Jamaican dollar liquidity due in part to the BOJ's accommodative monetary policy and lower borrowing requirements.

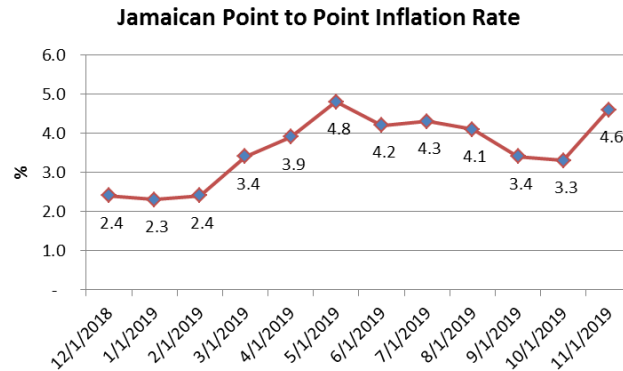
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Bank of Jamaica 6-month Treasury Bill Yield

Bank of Jamaica 3-month Treasury Bill Yield


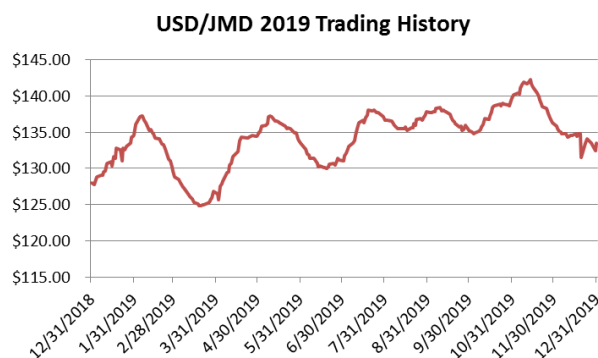
During the year, the BOJ lowered its policy rate four times in 2019. The overnight policy rate began the year at 1.75% and closed at 0.50%. The rate cuts were aimed at supporting inflation returning to and remaining within the policy target range of 4.0% to 6.0% by December 2020. This range is what the Central Bank has identified as the most optimal to its price stability mandate. The latest rate cut was done in August 2019 and reflected the BOJ's view that while inflation at the time was projected to average 4.3% over the next eight quarters, without a policy response, inflation is likely to fall below the target's lower limit at various points over the period.

The inflation rate in 2019 trended upwards from 2.4% as at Dec. 2018 to 4.6% as at Dec. 2019. A benign external environment and reduction in government spending culminated in Jamaica's GDP trending down to low single digits in recent times after averaging 10% per annum in the decade leading up to 2016. The 2016-2019 period has seen the average annual inflation rate fall more than half to 3.9% per annum. This trend has increased the allure of local equities when coupled with the historic lows for fixed-income investments. Low inflation translates to more attractive real returns for investors.

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The Jamaica Dollar depreciated 4.1% during the year as the USD/JMD selling rate closed the year at J\$133.48:US\$1.00, down from J\$127.96:US\$1.00 at the start of the year. While the overall level of depreciation can be viewed as relatively moderate to previous years, the graph below highlights the volatility that was observed throughout the year, the Jamaica Dollar traded as low as J\$142.23:US\$1 and as high as US\$124.79:US\$1. This volatility raised concerns by investors and producers as economic indicators did not support the swings observed. One explanation posited for the movements in the foreign exchange rate was large-scale financial market transactions which would have increased the demand for foreign exchange at various points in the year.



The year was on an upward trend up to Sept. 2017, when it was trading for almost \$131, before falling to \$124.50 as of Jan. 30, 2018. A multiplicity of factors which included the factors discussed above and improved fiscal and current account numbers drove this performance. Provisional data from the Ministry of Finance and Public Service showed a fiscal deficit of \$16.65B for the April 2017 to November 2017 period, 54.1% lower than budgeted as revenues & grants were

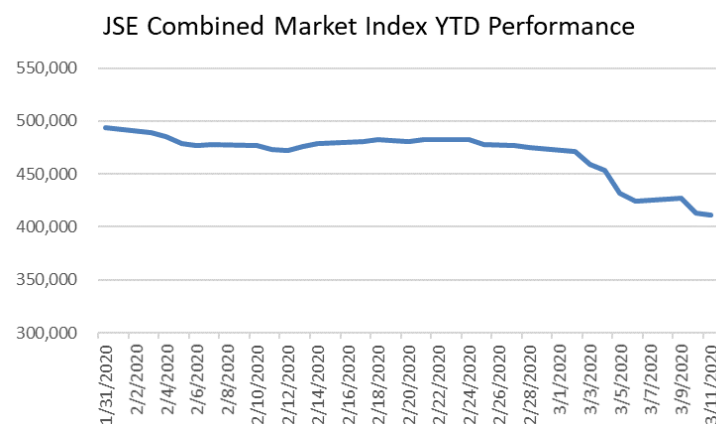
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4.0% higher than expected while expenditures were 1.8% lower than anticipated. The primary balance of \$70.38B was 30.9% or \$16.63B greater than budgeted.

Outlook

After a bullish run over the past five years, the stock market began to show signs of losing steam in the second half of 2019. The Combined Market Index was down 1.5% in 4Q19 and is down 18.9% year-to-date as of March 11, 2020. The Main Market Index is down 17.8% year-to-date, while the Junior Market Index is down an alarming 28.8%.

The decline in local market in the first two months of 2020 may be explained by investors liquidating existing holdings to participate in the IPOs that took place in the last three months, specifically Transjamaican Highway Limited. Transjamaican sought to raise US\$80M, with the option to upsize to US\$100M. The Offer was able to raise J\$26B in applications and is likely to have a material impact on the listed share prices.



However, after the Transjamaican Highway closed, the market's freefall continued as the Main Market Index has slid 13.1% since the start of March 2020, while the Junior Market Index has declined by 18.1% over the same period

These declines coincide with the spread of the Coronavirus disease (COVID-19), which was designated a pandemic on March 11, 2020 by the World Health Organization. Global panic has ensued as the number of cases stood at 126,367 at the time of writing with 4,633 deaths. COVID-19 has raised alarm worldwide due to the relative ease of transmission and is suspected to be communicable even when persons show no symptoms.

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The pandemic has caused the U.S. stock markets to plummet, reaching to levels temporarily that would mark a 20% drop (bear market territory). Global production is being curtailed as the disease originated in China, the world's global manufacturing hub. To combat the disease, China has had to quarantine entire provinces which has raised supply chain concerns for its trade partners.

As of March 11, 2020, 124 countries have confirmed cases of the disease. Jamaica confirmed its second case on March 11 and is one of four Caribbean countries that have confirmed cases thus far. President Donald J. Trump announced a ban on foreign visitor travel into the U.S. from select European nations while Jamaica has imposed restrictions on travel from: Spain; Germany; France; China; Italy; South Korea; Singapore; and Iran.

What should investors do?

NOT PANIC. The volatility being experienced now emphasizes the wisdom in value investing – taking long-term positions in undervalued stocks with a positive long-term investment horizon which are more likely to weather economic headwinds. Investing with a short-term horizon with the aim of “timing the stock market” is a precarious venture that can lead to significant losses. It is notable that the coronavirus headwinds struck during the JSE's earning season, coinciding with the publication of positive financial results for several companies which have since seen their stock prices depreciate significantly.

At this time, it is difficult to predict the full economic impact that the coronavirus will have on Jamaica and the local stock market as a result. Stocks with exposure to the Tourism sector are likely to be negatively as international travel is already being limited by travel restrictions and consumers fears of contracting the disease in high traffic areas such as airports and hotels. The Manufacturing, Wholesale, Retail & Trading sectors are also likely to be impacted by supply shortages as the Caribbean is heavily dependent on competitively priced production inputs, raw materials and finished goods from China. Reduced trade and tourism arrivals could also put pressure on the currency markets.

Businesses are wary of uncertainty and as such may scale back plans for expansion in the short term, this could lead to a decline in borrowing and capital market activities which may have an impact on the financial sector.

How quickly normalcy returns is dependent on how well global authorities execute their strategies to contain the disease. Jamaican businesses could see a situation where employees are

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encouraged to stay home from work to prevent disease transmission. The burden on the health care system if the disease spreads quickly may also have a material impact on 2020's economic performance. Globally, how quickly Chinese workers begin to return to work and how well nations around the world are able to restrict access at the ports and quarantine potentially affected individuals will impact how quickly normalcy returns to global supply chains.

Investors should maintain positions in strong blue-chip companies with a history of dividend payments that are less likely to experience the swings in stock prices of small-cap stocks.

2020/2021 Revenue Measures

The Government of Jamaica announced the following revenue measures for Fiscal Year 2020/2021:

1. Reduce the Standard General Consumption Tax (GCT) rate from 16.5% to 15.0%. The potential tax revenue loss from this measure is estimated at J\$13.968B.
2. Reduce the Asset Tax rate from 0.25% to 0.125%. The potential tax revenue loss from this measure is estimated at J\$3.02B.
3. New income tax credit for companies (regulated and unregulated) with annual sales/revenue less than or equal to J\$500M. The potential tax revenue loss from this measure is J\$1.01B.

On aggregate, these measures are anticipated to add J\$17.998B to the economy. A lower GCT rate may lead to greater consumer spending while a lower asset tax frees up capital to on-lending by banks or fund expansion projects. However, the benefits of these measures are likely to be at least partially mitigated in the short-term due to the headwinds from COVID-19.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg,

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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