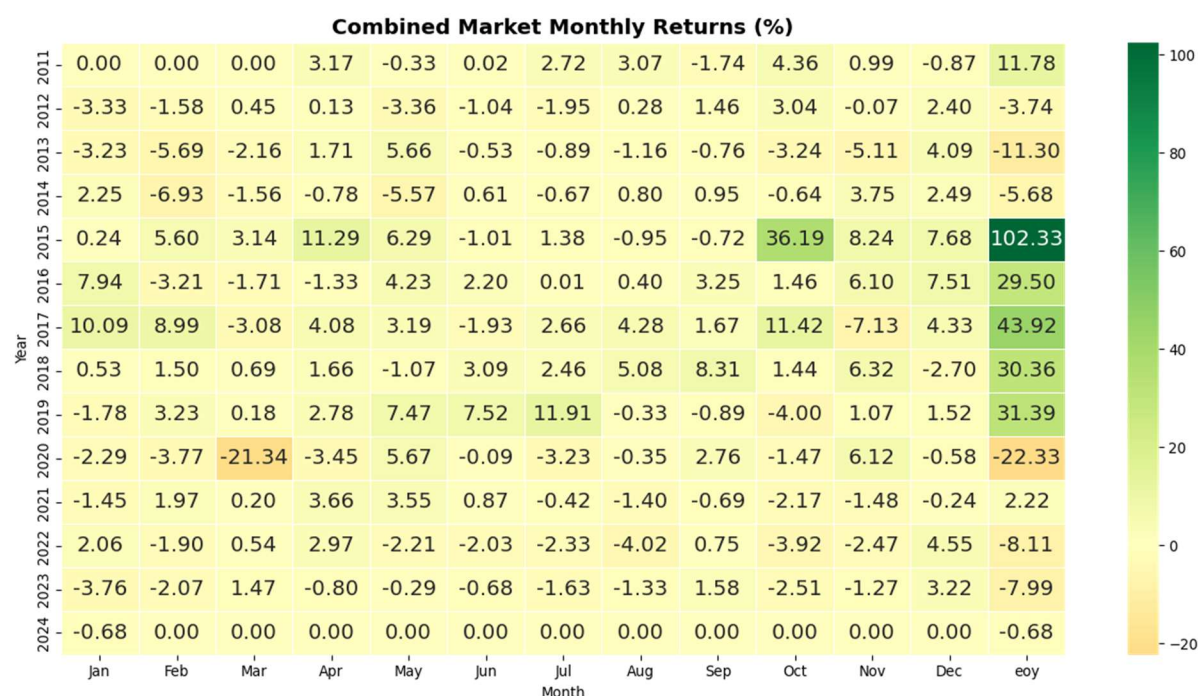


Jamaica Stock Market Outlook

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Introduction

The performance of all entities listed on both the Main and Junior Markets is gauged by the JSE Combined Market. Over several years, this market has demonstrated a broad spectrum of performances, reaching its pinnacle in 2015 with a yield of 102.3% and plunging to its nadir in 2020 with a return of -22.3%, due to the influence of COVID. The diagram below offers an insight into the performance track record of the JSE Combined Market since 2010.



In the long term, the equity market has generated a CAGR of 15.2% over the preceding 10 years. Hence, this asset category can endow investors with substantial long-term worth as an element of a portfolio, in alignment with an investor's risk acceptance and investment objectives.

The objective of this paper is to conduct a review of the market over an extended period. **Furthermore, it aims to demonstrate that, despite the inherent short-term volatility of the market, substantial value can be offered to investors in the long run.** Additionally, we aim to furnish a near to medium-term perspective on the stock market.

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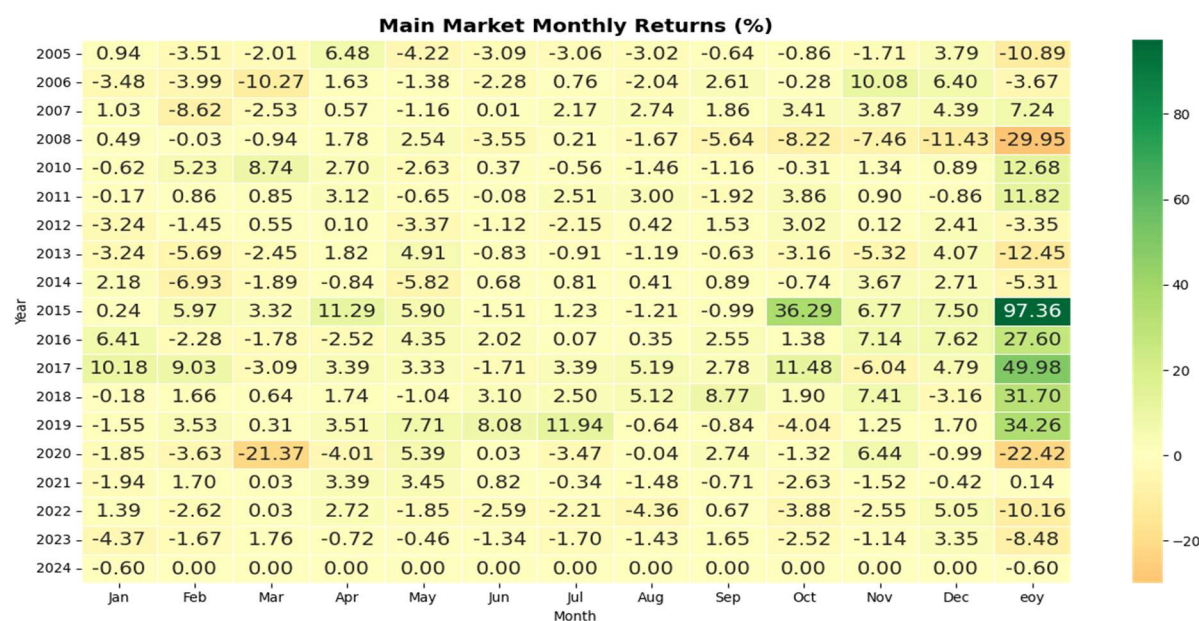
Historical Performance Analysis

In 2023, the Combined Market has seen a reduction of roughly 8%, which is significantly less severe than the slump of -22.3% observed in 2020. The primary cause of this decrease was the notable downturn in share prices provoked by COVID-19 in March 2020, when the market fell by 21.3%. It is essential to highlight that this downturn in 2020 occurred after five successive years of market rise. Consequently, when viewed over a longer timescale, the market has proven beneficial for investors. Indeed, an investment of \$100,000 made at the close of 2014 aligning with the Combined Market weightings would have increased to \$433,561 by the culmination of 2023.

Policy Rate Environment Review

The policy rate initially saw a downward shift, standing at 16% in July 2009 before rapidly decreasing to 6.75% by March 2011. This period encompassed a rise of 12.7% in the financial year 2010 by the Main Market. By the end of December 2014, the policy rate had further descended by another 100 basis points to reach 5.75%. However, the Main Market experienced a downfall for three successive years, including a drop of 12.5% in the financial year 2013. Following this, policy rates witnessed a decrease of 50 basis points in the financial year 2015 ending at 5.25% by December that year, coinciding with a remarkable surge of 97.4% in the Main Market. Consequently, while it is evident that the policy rate plays some role in market performance, it constitutes only one of many variables affecting overall market trends.

Notably the increase of 36.3% observed in October 2015 by the main market representing the best monthly performance since 2005 was aided by D&G acquisition which saw the stock being acquired at USD 0.259 or approximately J\$30.90.

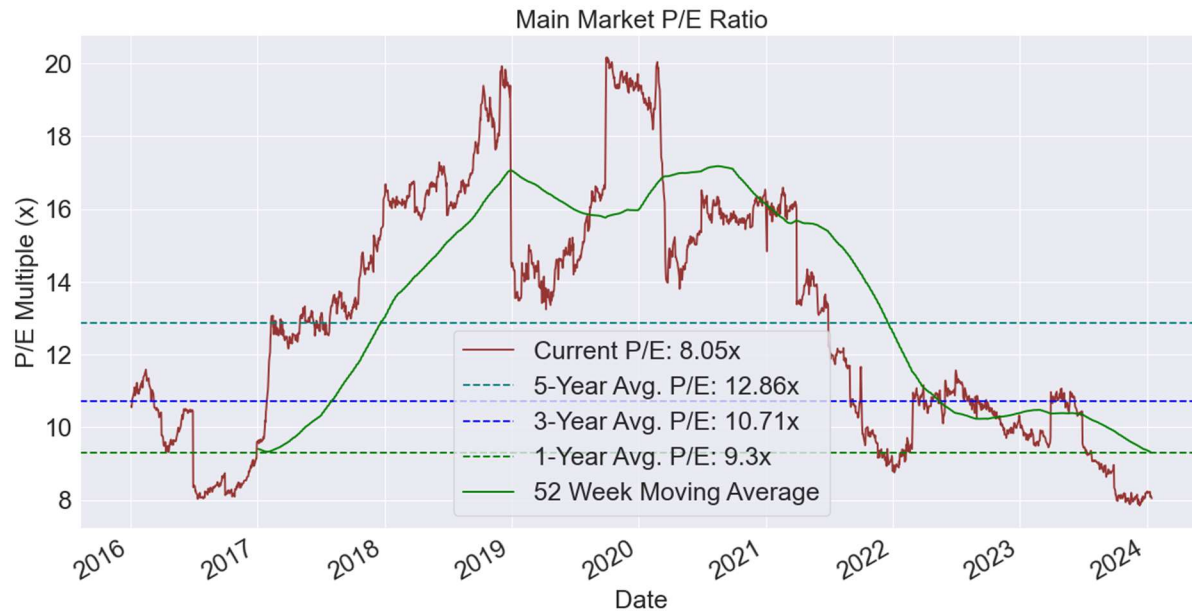


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Market Sentiment & Investor Confidence

We utilise the comprehensive P/E of the Main Market as a mechanism to assist in evaluating investor sentiment. At present, the Main Market P/E stands at roughly 8.1x, suggesting a somewhat bearish outlook from investors, given that it was in excess of 20x in 2019. Moreover, the 52-week moving average has been on a downward trend in recent months, illustrating a decline in sentiment amongst investors.



Furthermore, the P/B of the Main Market has also exhibited a declining trajectory, plummeting from its peak of approximately 2.1x in 2019 to its current level of around 1x. This downward shift is indicative of a worsening investor outlook, suggesting that investors are now adopting a more conservative approach in their overall stock valuations. These P/B ratios were last seen during the financial year 2016.



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As illustrated in Chart 5, the present P/E ratio for the Junior market stands roughly at 17.4x, which is somewhat lower than the five and three financial year averages of the Junior Market. This figure significantly surpasses the 10.7x seen at the start of 2016. The prevailing P/E ratios indicate that investors' outlook on Junior Market stocks is substantially more favourable than on Main Market stocks, possibly due to a higher potential growth rate from Junior Market listings. This higher multiple may be due to the smaller firms having a higher potential for rapid growth and the Junior Market 10-year period of reduced tax rates.



Furthermore, the Junior Market recorded gains of 29.7% and 16.3% in 2021 and 2022 respectively. These gains were substantially higher than the levels experienced in the Main Market in those years.

Junior Market Monthly Returns (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	eoY
2010	1.06	2.52	14.39	23.61	25.46	-10.92	27.04	-13.19	-6.77	15.78	9.15	19.04	153.26
2011	-10.99	-11.24	-2.36	6.36	21.80	4.91	11.22	5.70	4.64	19.78	3.33	-0.97	97.11
2012	-5.66	-4.92	-2.42	0.94	-3.17	1.18	3.49	-3.27	-0.54	3.58	-5.00	2.00	-13.50
2013	-2.97	-5.73	5.06	-0.85	23.13	5.44	-0.48	-0.63	-2.98	-4.71	-1.11	4.61	16.99
2014	3.51	-6.89	2.02	-0.19	-2.97	-0.10	-15.39	5.42	1.66	0.41	4.65	0.14	-9.22
2015	0.24	1.42	1.01	11.25	10.94	4.91	3.02	1.83	2.15	35.15	23.66	9.31	160.34
2016	-21.43	-10.43	-1.16	7.25	3.43	3.39	-0.33	0.73	7.80	1.95	-0.30	6.78	44.82
2017	9.50	8.76	-2.98	8.65	2.32	-3.29	-2.07	-1.79	-6.20	10.93	-15.56	0.34	5.33
2018	6.96	0.09	1.15	1.02	-1.30	2.97	2.13	4.78	4.45	-2.61	-3.76	2.03	18.84
2019	-3.96	0.30	-1.14	-4.87	4.61	0.86	11.57	3.56	-1.47	-3.47	-1.07	-0.74	3.15
2020	-7.80	-5.70	-20.87	4.48	9.37	-1.55	-0.09	-4.21	3.01	-3.34	1.86	5.06	-21.07
2021	4.95	5.27	2.14	6.68	4.47	1.38	-1.42	-0.43	-0.37	3.28	-1.07	1.79	29.69
2022	9.41	6.38	5.84	5.41	-5.58	3.48	-3.38	-0.82	1.48	-4.20	-1.80	0.19	16.28
2023	1.80	-5.44	-1.10	-1.51	1.26	5.26	-1.11	-0.51	1.01	-2.44	-2.38	2.05	-3.46
2024	-1.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.46

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Dividend Yields & Capital Gains

Stocks have a higher risk profile relative to most fixed income investments and materially higher than deposits. However, several stocks carry a dividend yield that is substantially higher than deposit rates. Therefore, an investor with a long-time horizon that is willing and able to take on a degree of risk could consider some consistent high dividend stocks as an alternative. Meanwhile, **commercial banks savings deposit rates ranged between 0.46% and 1.03% between January and November of 2023 based on BOJ published data.** See table below some companies that offered significant dividend yields in calendar year 2023. The dividend yields offered on these stocks were materially higher than savings deposit rates. **Of particular note is the fact that stocks such as Scotia Group Jamaica Limited and Transjamaican Highway Limited produced material capital gains in calendar year 2023.**

Ticker	Dividend Yield
Carreras Limited Jamaica	10.47%
Transjamaican Highway Limited	8.74%
Sygnus Credit Investments Limited	6+%
Scotia Group Jamaica Limited	4.10%
Supreme Ventures Limited	3.49%

The Combined Market declined by 8% in calendar year 2023. There were some stocks that produced material upside for investors in calendar year 2023. Some of these stocks are shown in the table below.

COMPANIES	CAPITAL GAINS
Transjamaican Highway Limited	93.6%
Main Events Entertainment Group Limited	54.6%
Lasco Distributors Limited	45.6%
Knutsford Express Services Limited	42.2%
Wisynco Group Limited	21.7%
Scotia Group Jamaica Limited	12.0%

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Meanwhile, some stocks that experienced material declines in calendar year 2023 include the Jamaica Stock Exchange Limited, VM Investments Limited and Barita Investments Limited. In our opinion some of these declines' present opportunities for long-term investors, given that the current valuation may reflect investors being overly pessimistic about future prospects for these companies.

Conclusion

Whilst the Combined Market suggests that investors have not seen significant returns since the financial year 2019, the Junior Market has shown robust growth in the financial years 2021 and 2022. This underscores the fact that despite overall market downturns, significant returns can be realized by investors. Even with the adverse effects on the aggregate market due to elevated interest rates, certain companies have observed substantial profitability growth, leading to notable rises in their share prices.

It is noteworthy that the stocks in the Main Market are discernibly more affordable than those in the Junior Market. This presents a potential window of opportunity for long-term investors, particularly within a declining interest rate context. Presently, the P/E ratios within the Main Market could instigate considerable upward shifts in stock prices as soon as there is an improvement in the interest rate climate.

Recommendation

While the Main Market has experienced a downward trend in index points in the recent past, it is important to emphasize that long-term investors would reap benefits from the overall rise in value, despite the recent dip in market performance. Hence, even though the prevailing interest rate scenario is exerting downward pressure on stock prices, we anticipate that current valuations in the Main Market represent value given this infers an earnings yield of 12%. This figure is significantly above the Bank of Jamaica (BOJ) policy rate. Additionally, considering that over the medium to long-term horizon, company earnings are generally inclined to increase, it is likely that both dividend payouts and capital appreciation will see an uptick.

Although the Junior Market's attractiveness could be considered diminished due to its earnings yield of roughly 5.8%, it should be noted that firms listed on this market are often subject to accelerated growth.

This is largely attributed to their relatively smaller scale and advantageous tax ramifications. Thus, it is anticipated that a certain premium will be applied. However, in light of the prevailing interest rates, this current premium might be perceived as a deterrent for some investors.

See table below for **some stocks that could experience** material growth in prices for 2024 and possibly 2025.



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COMPANY	Rationale
WISYNCO	Increased demand for products
Lasco Manufacturing Limited	Depressed Price, profitability
Jamaica Broilers Limited	
NCB Financial Group	Depressed price, possible dividends, cost containment
Honey Bun (1982) Limited	
Sygnus Investments	Dividends, diversity of financial product offerings
Seprod	Increased product offerings, profitability
Dolla Financial	Dividends
Scotia	Consistent dividends
Carreras	Consistent dividends
TransJamaican Highway	Dividends
Sagicor Financial	Geographical diversification, increased profitability, acquisitions
Supreme Ventures Limited (SVL)	Dividends, profitability, geographical diversification
Knutsford Express	Recovery of Tourism, lifting of restrictions on movement, courier services

APPENDIX

IMPORTANT DISCLOSURES

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

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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 / STRONGLY 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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