Scotia Investments®

Scotia Insights

March 5, 2021

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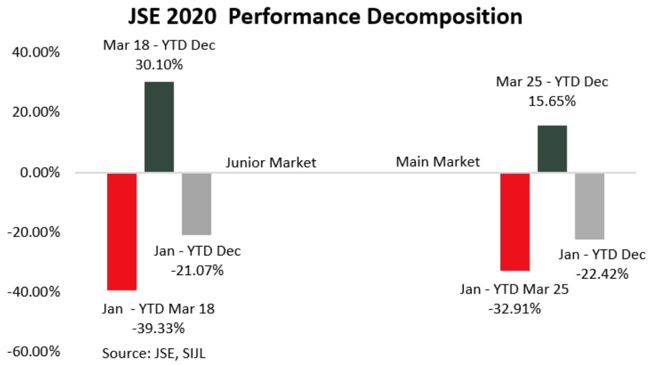
Chart of the week



Upcoming Key Economic Events	
Country / Region	**Event**
Tuesday, March 9, 2021	
USA	EIA Short-term Energy Outlook
Wednesday, March 10, 2021	
USA	Core CPI (MoM) (Feb)
Canada	BoC Interest Rate Decision
USA	Weekly Crude Oil Inventories
Thursday, March 11, 2021	
EU	Deposit Facility Rate (Mar)
EU	ECB Interest Rate Decision (Mar)
USA	JOLTs Job Openings (Jan)
Friday, March 12, 2021	
UK	Manufacturing Production (MoM) (Jan)
USA	PPI (MoM) (Feb)
Canada	Employment Change (Feb)

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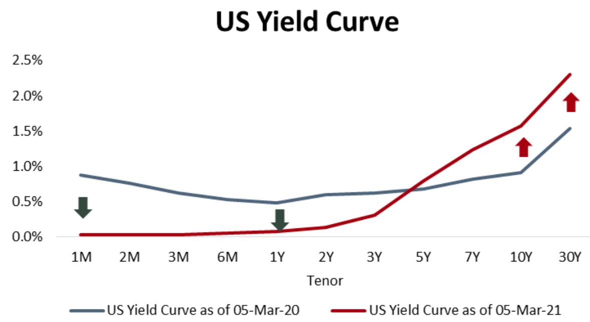
Where is all the money going?

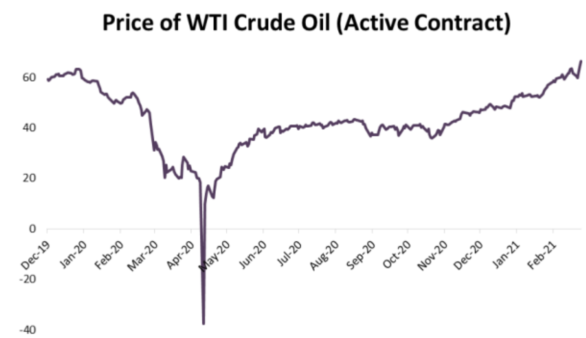
Despite a sharp steepening of the US yield curve last week, on Thursday the US Fed Chairman maintained his position that the near-term inflation expectations driven by the easing of containment measures and the upcoming stimulus are transient and does not warrant monetary tightening. In response, interest rates on the mid- to long-end of the US yield curve accelerated pushing yields up to 0.79% (5-year) and 1.56% (10-year). These yields are well above those of January 2021 — 0.36% (5-year) and 0.93% (10-year). Equity markets responded with a broad market selloff causing some support levels to be tested and some broken through. With prices declining in both asset classes, the question left unaddressed is: “Where is all the money going?” Nevertheless, interest rates may settle at levels slightly lower later in the year and equities are expected to rebound as the recovery continues to take shape. This may mean that current price levels are presenting buying opportunities for investors.



Source: Bloomberg

The return of black gold

On Thursday OPEC+ urged all members to continue pre-determined output cuts at least until July 2021. Prior to this decision, oil prices had already returned to pre-pandemic levels as the rising rate of inoculation against the COVID-19 virus paves the way for the reopening of economies, which was why market participants were shocked by the agreement. The move sent the price of WTI crude oil up 4.49% on Friday. Buttressing the move was an announcement by major oil sands producers in Canada (a non-OPEC+ member country) of a reduction in production by half a million barrels a day for one month in order to conduct maintenance exercises, driving the price of WTI crude oil to an intraday high of US$66.40 on Friday. Prices may remain elevated until April when the committee meets again, benefiting energy companies and oil producing non-OPEC+ emerging market countries. Net importers of oil such as Caribbean nations are expected to bear the brunt of the impact of higher prices.



Source: Bloomberg

Shift back to office = shift out of work-from-home stocks

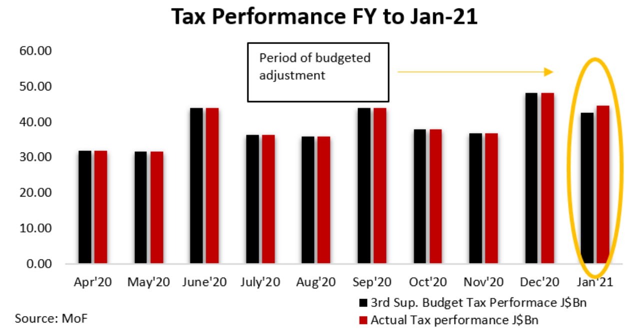
Equity markets were battered this past week with volatility indices (VIX, V2X, and VDAX-NEW) at elevated levels as headlines moved between updates surrounding the COVID-19 vaccines, the US Fed’s decision to not respond according to market demands and strong economic data coming out of North America, the EU, UK and China. A major driver of the sell-off has been the tech sector, as investors shift funds away from work-from-home stocks towards those set to benefit from greater spending such as consumer discretionary stocks. This was particularly evident following the announcement of nonfarm payroll numbers for February 2021 doubling expectations; however, “dip” buyers may have taken markets off their lows. With equity markets so dynamic and US inflation numbers due next week we could see sustained volatility if analysts’ forecasts are met or exceeded.

Indices	Value	WoW	YTD
S&P 500 Index	3,841.94	0.81%	2.29%
MSCI World Index	653.36	-2.05%	1.10%
SPTSX Index	8,380.96	1.78%	5.44%

Source: Bloomberg

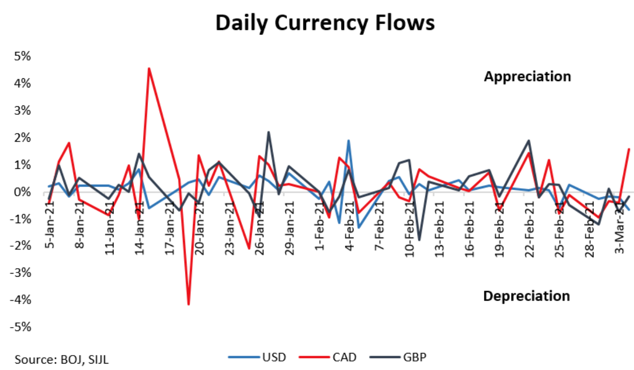
Fiscal deficit widens in January 2021

January's fiscal tables reflect total revenues amounting to J$48B which was 6.4% above the third supplementary budget estimates, but 4.3% lower than January 2020. Taxes continued to be the largest source of government revenues (93% in January) performing 5.1% above budget. However, its impact was partially offset by the decline in non-tax revenues which was $1.76B (25.5% below budget). Concurrently, January's government expenditure was 3.7% below budget, coming out at J$56.9B. The reduction in expenditures is in line with the stated commitment to cut expenditure by upwards of J$3.5B over Q4 FY20/21. The major driving force behind January's expenditure levels was an 11.5% lower than anticipated interest payments that amounted to $16.86B. Notwithstanding favourable revenue and expenditure performance relative to budget, the government recorded a fiscal deficit of J$8.9B (36% below budget) and a FYTD deficit of J$79.14B. In order to restrain the deficit and offset tax shortfall, the GoJ will likely continue to restrict spending, even in the face of an increasing public healthcare and economic crisis.



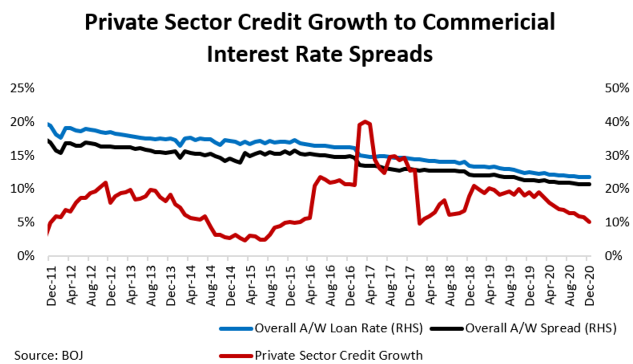
DTIs provide supply-side support

Since the start of March 2021, the JMD has reverted to its quarterly appreciative norm as DTIs enter the currency exchange market increasing the supply side and momentarily tempering the demand and supply imbalances. From February 26 to March 4, the JMD has gained 1.3%, 2.4% and 2% against the USD, CAD and GBP, respectively. Notwithstanding this respite, the JMD's depreciative trend is expected to continue to dominate in the subsequent months as supply of foreign currency remains suppressed by the pandemic.



Credit growth slows in 2020

The market for credit is an important enabler of economic growth as it provides financing for investment. In principle, the more credit that is made available to the productive agents of a country, the more investment and capital growth that country should experience, assuming all other factors are held constant. In 2020, credit growth for businesses and private households ended the year at 12.2% and 8.2%, respectively. The accommodative environment created by the BOJ supported credit resilience over the period, despite headwinds created by the pandemic. Notwithstanding the aforementioned positives, anecdotal evidence suggests that the recession resulted in a divergence of credit usage and intent. Instead of being used as a propellant for growth, businesses and individuals were forced to use credit as a means to stay afloat. The outcome was growth in credit, but at a decreasing rate. Whereas many persons saw available credit as an option for sustainment, the elevated risk prompted creditors to reduce the availability of credit whilst some debtors curtailed their demand. As a result, despite the persistence of lower interest rates, borrowing remained below pre-pandemic levels.



Year 2020 in review: Market impact of COVID-19

For many of us, the press briefing held on Sunday, February 28 may have triggered feelings of déjà vu as the Prime Minister, once again, tightened containment protocols in response to another resurgence in COVID-19 cases. These developments are unfolding as we approach the anniversary of the first locally confirmed case, which led to the initial imposition of containment measures.

It is against this background that we take the opportunity to review the local equity market's performance since the onset of the crisis in Jamaica. The Main and Junior Indices hit their lowest levels on March 25 and March 18, respectively, as virus fears quickly spread to the market and drove investors towards the exit. As at the aforementioned dates, the indices reflected YTD contractions of 32.91% and 39.33%, respectively, as increased volatility from bearish investor sentiments coincided with the economy entering into the contractionary phase of the business cycle. Although both indices ended the year in negative territory, there were noticeable improvements in returns and corporate profits since hitting their respective lows; the Main and the Junior Indices returned 15.65% and 30.10%, respectively, between the March trough and the year-end. Presently, we are beginning to observe a shift in investor sentiment compared to the previous 12 months as market participants seem to be favouring potential opportunity over virus fears. This newfound optimism could be attributed to the expected impact of vaccinations both locally and in key source markets over the next 12 months. Notwithstanding the observed optimism, we remain cautious as delays in the start of the local vaccination programme and further tightening in protocols continue to drive downside risks.

Junior Market retreats

The Junior Market Index's eight-week run of successive gains came to an end this week as the index posted WTD losses of 0.79%. The past week saw a total of 42 stocks traded, of which 18 advanced, 20 declined while four traded firm. Larger weighted companies such as LASM and MAILPAC's negative returns overshadowed the performance of companies such as PTL and CFF that ended the week with positive WTD returns of 9.7% and 16.11%, respectively. Both MAILPAC and LASM recently recorded improvements in profits YoY so a reduction in the stock prices could possibly be a sign of profit taking by investors who perceive the stocks, which opened on March 1 at J$3.63 and J$4.65, respectively, as being overvalued.

The Main Market fared marginally better that the Junior Market, ending the week with a positive WTD return of 0.31%. Overall market activity ended with 51 stocks traded, of which 23 advanced, 23 declined and five traded firm. The standouts this week were CCC and GK, with WTD returns of 8.36% and 8.66%, respectively. CCC was able to capitalise on the increased activity within the construction sector, recording profits of J$3.2B in 2020, 69.7% higher YoY. GK also boasted profits of J$6.22B during 2020, up 38.6% YoY, recording what the company states as its best financial performance in its 99-year history.

Market Quote for Week Ending March 5, 2021

Index	Opening Value	Closing Value	Total Volume	Value (J$)	WTD Change	YTD Change
Main Market	394,528.81	395,736.57	69,246,521	502,402,494.13	0.31%	0.03%
Junior Market	2920.35	2,897.33	39,223,771	112,002,835.87	-0.79%	9.61%

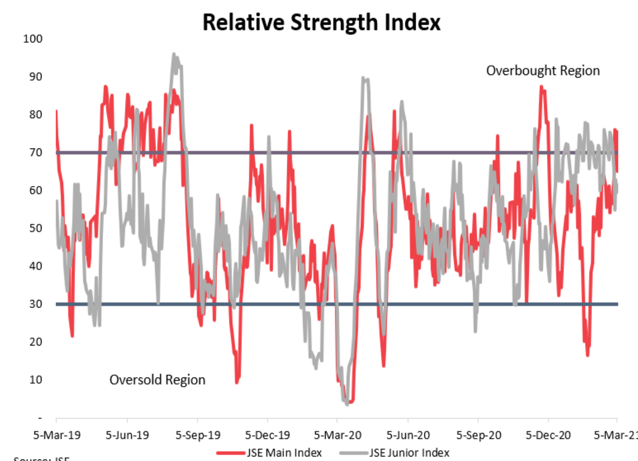
Source: JSE, SIJL

Sector	Top Advancers*	Top Decliners*
Finance	LASF	ASF
Manufacturing	CFF	PURITY
Insurance	GENAC	ROC
Other	GWEST	ICREATE
Retail	PTL	CPJ

*Based on percentage price increase week-over-week
Source: JSE, SIJL (Junior Market)

Sector	Top Advancers*	Top Decliners*
Finance	MJE	1834
Conglomerate	GK	SJ
Other	CAR	CBNY
Manufacturing	CCC	BRG
Real Estate	FIRSTROCJMD	KPREIT

*Based on percentage price increase week-over-week
Source: JSE, SIJL (Main Market)



Source: JSE

Recently Released Key Economic Events				
Country/Region	**Event**	**Actual**	**Forecast**	**Previous**
Sunday, February 28, 2021				
China	Manufacturing PMI (Feb)	50.6	51.1	51.3
China	Caixin Manufacturing PMI (Feb)	50.9	51.5	51.5
Monday, March 1, 2021				
EU	German Manufacturing PMI (Feb)	60.7	60.6	57.1
UK	Manufacturing PMI (Feb)	55.1	54.9	54.1
USA	ISM Manufacturing PMI (Feb)	60.8	58.8	58.7
Tuesday, March 2, 2021				
EU	German Unemployment Change (Feb)	9K	-13K	-37K
EU	CPI (YoY) (Feb)	0.9%	0.9%	0.9%
Canada	GDP (MoM) (Dec)	0.1%	0.3%	0.8%
Wednesday, March 3, 2021				
UK	Composite PMI (Feb)	49.6	49.8	41.2
UK	Services PMI (Feb)	49.5	49.7	39.5
USA	ADP Nonfarm Employment Change (Feb)	117K	177K	195K
USA	ISM Non-Manufacturing PMI (Feb)	55.3	58.7	58.7
USA	Weekly Change in Crude Oil Inventories	21.563M	-0.928M	1.285M
Thursday, March 4, 2021				
UK	Construction PMI (Feb)	53.3	51.0	49.2
USA	Weekly Initial Jobless Claims	745K	750K	736K
Friday, March 5, 2021				
USA	Nonfarm Payrolls (Feb)	379K	182K	49K
USA	Unemployment Rate (Feb)	6.2%	6.3%	6.3%
Canada	Ivey PMI (Feb)	60.0	-	48.4

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