



# Rising Yields and the Bond Market



The yield on the US 10-Year Treasury climbed to 1.63 per cent as at the time of writing this article, more than doubling since the end of December 2020 and surpassing the level seen at the start of the pandemic in February 2020. Financial market practitioners pay keen attention to yields as it is a strong indicator of the real-time appetite for risk in the financial markets. Furthermore, 'the yield' which has two components, expected inflation, plus a real yield, provides the market with valuable information about the bond market's demand and supply conditions.



Although inflation expectation, cannot be determined by the nominal yield (such as the yield quoted by Bloomberg), it can be calculated by assessing the breakeven rate<sup>1</sup>. The breakeven rate can be determined by subtracting the Treasury Inflation-Protected Security (TIPS) yield from the nominal bond yield. If you are not interested in that 'experiment' you could visit <https://fred.stlouisfed.org/series/T10YIE>, or take my word that the 10-Year Breakeven Inflation Rate was 2.33 per cent as of April 8, 2021. Another important element is that the principal on TIPS increases with inflation and decreases with deflation. As such, the TIPS yield is the real yield component of the bond yield.

Given that the 10-Year Treasury yield is at 1.63 per cent, and the breakeven rate is at 2.33 per cent, the implied real yield is approximately -0.70 per cent. When we compare where we are today, to where we were a year earlier<sup>2</sup>, when governments across the world were implementing strict lockdown measures to curb the spread of the virus, we can see that real yields are lower now than they were then. What is 'the yield' telling us about the bond market's demand and supply conditions today? The central point is that there is still a lot of excess demand for bonds, and that investors are willing to accept negative real yields as a result.

The phenomenon of 'flight to safety', which occurs when there is severe economic uncertainty, such as that caused by the COVID-19 pandemic, may explain investors' acceptance of negative real yields. Investors are willing to accept negative returns in these cases to protect their investment. This is evident in the chart below, mapping the movement in real yields, which demonstrates how real yields grew increasingly negative as the pandemic accelerated in 2020, but have since become less negative as vaccines became available and distribution began, signalling renewed optimism that things would return to normal soon.



It is fair to expect nominal yields to increase further as normalcy returns. As economies continue to reopen aggregate demand is expected to increase further, leading to higher inflation. In the short-term, however, inflation is unlikely to climb to dangerous levels because unemployment remains relatively high globally. If inflation gets to dangerously high levels, the Federal Reserve has almost all the monetary tools needed to correct the issue. The Federal Reserve chair, Jerome Powell, himself has reiterated this on several occasions.

Although the negative yields are signalling that there is excess demand for bonds, the path of the curve is indicating that investors demand for the asset is declining. The decline in demand for bonds is partly due to the expectation that normality is likely to return soon. Since normality is likely to lead to higher bond yields, higher inflation and a higher breakeven rate, the demand for bonds would reasonably be expected to decline given that rising inflation will make the fixed cash flow nature of bonds less attractive.

<sup>1</sup><https://fred.stlouisfed.org/series/T10YIE>

<sup>2</sup>Real Yield April 8 2020 was 0.42% - Source: <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldYear&year=2020>

## Currency Markets

### International Currency Market

Currency	9-Apr	2-Apr	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
EUR: USD	1.190	1.176	-0.08%	1.23%	6.16%	8.91%
GBP: USD	1.371	1.380	-0.18%	-0.88%	3.42%	10.05%
USD: CAD	1.253	1.260	-0.27%	-0.40%	-3.56%	-10.36%
USD: JPY	109.640	110.690	0.35%	-0.95%	0.95%	1.06%

### Local Foreign Currency Market

Currency	9-Apr	8-Apr	31-Mar	DoD % Δ	WoW % Δ	YTD % Δ
USD:JMD	148.91	148.43	146.58	0.32%	1.59%	4.39%
GBP:JMD	205.73	206.28	202.83	-0.26%	1.43%	6.2%
CAD:JMD	120.67	120.09	120.15	0.49%	0.43%	8.3%

## Global Interest Rates

Rates	9-Apr	2-Apr	DoD Δ bps	WoW Δ bps	YTD Δ bps	YoY Δ bps
10 Year US Treasury Bond	1.65%	1.72%	3.00	-7.00	-27.00	93.00
10 Year UK Gilt	0.77%	0.80%	2.00	-3.00	-5.00	46.00
GOJ 2025 Global Bond	3.50%	3.51%	0.00	-1.00	-35.00	-289.00
5 Year US Treasury Bond	0.86%	0.98%	2.00	-12.00	-83.00	46.00
5 Year UK Gilt	0.35%	0.37%	1.00	-2.00	-25.00	22.00

## Commodities

Commodity	9-Apr	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
Crude Oil	59.32	-0.47%	-3.47%	-2.85%	160.63%
Gold	1743.23	-0.72%	0.83%	14.89%	3.53%
Silver	25.25	-0.80%	0.98%	41.47%	63.65%
Aluminium	2264	-0.81%	1.73%	25.08%	53.02%

## Week in Review: April 6 - April 9, 2021

### Local Equity Market

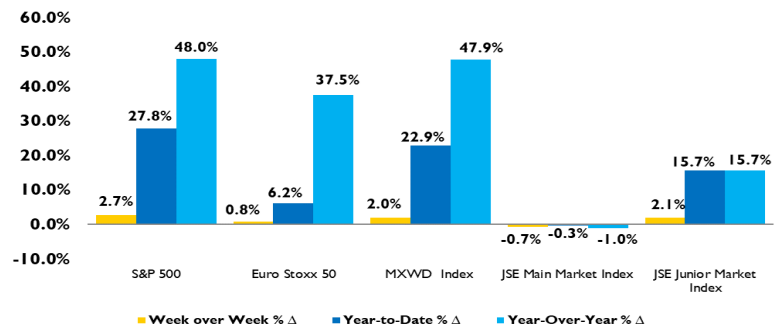
#### BEST AND WORST PERFORMERS

ADVANCERS		DECLINERS	
KREMI	24.95%	ROC	-20.00%
ECL	18.32%	SALF	-15.33%
KEX	15.25%	1834	-10.71%

JSE Main Market activity (excluding preference shares) resulted from trading in 44 stocks of which 20 advanced, 22 declined and 2 traded firm. Market volume (excluding preference shares) amounted to 35,041,518 units valued at over \$197,650,503. JSE Junior Market activity (excluding preference shares) resulted from trading in 39 stocks of which 19 advanced, 14 declined and 6 traded firm. Market volume (excluding preference shares) amounted to 31,455,026 units valued at over \$102,311,593.

### Global Equity Indices

Index	31-Dec	1-Apr	9-Apr	WoW % Δ	YTD % Δ	YoY % Δ
S&P 500	3,230.65	4,019.87	4,128.78	2.71%	27.80%	47.99%
Euro Stoxx 50	3,745.15	3,945.96	3,978.84	0.83%	6.24%	37.54%
MXWD Index	565.24	681.03	694.41	1.96%	22.85%	47.88%
JSE Main Market Index	395,614.93	397,354.26	394,428.92	-0.74%	-0.30%	-0.99%
JSE Junior Market Index	2,643.38	2,996.49	3,058.26	2.06%	15.70%	15.72%
JSE Combined Index	392,435.92	397,812.53	395,801.66	-0.51%	0.86%	0.21%



## Upcoming Week: April 12 - April 16, 2021

Country	Report	Period	Forecast	Prior
US	Initial Jobless	10-Apr	700,000	744,000
US	CPI MoM	Mar	0.50%	0.40%
US	U. of Mich.	Apr P	89.00	84.90
US	Retail Sales	Mar	5.50%	-3.00%
UK	Industrial	Feb	0.50%	-1.50%
UK	Manufacturi	Feb	0.50%	-2.30%
JN	Core	Feb	2.80%	-4.50%
EC	CPI YoY	Mar F	1.30%	0.90%

# LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS	J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE
April 9, 2021						
JMMB Group Ltd (JMMBGL)	Current Price	\$31.95	EPS \$3.42	ROE 13.08%	ROE 12.63%	JMMBGL is one of Jamaica's largest financial services corporations, entering the market in 1992 as the first Money Market Brokerage firm. The holding company, JMMB Group Limited, was formed as a parent to house the group of companies. To date, the JMMB Group Ltd. has extended its reach across the Caribbean, including the Dominican Republic and Trinidad and Tobago. The Group has over 316,000 clients and continues to grow steadily. We believe that in addition to its core businesses, key strategic partnerships such as the 22.2% stake in Sagico Financial Corporation allows JMMBGL to achieve further diversification and increased profitability.
	52 Week High	\$39.05	BVPS \$26.13	P/E 9.35	P/E 19.30	
	53 Week Low	\$28.00	T12M Div. \$0.25	P/B 1.22	P/B 2.10	
	WoW %	-2.86%	Div. Yield % 0.65%			
BUY	YTD %	-7.91%				
Derrimon Trading Co Ltd (DTL)	Current Price	\$2.56	EPS \$0.07	ROE 19.40%	ROE 13.22%	Derrimon is vertically integrated whereby it manufactures and distributes through its own channels such as Sampars and its Select grocers retail outlets. Over the last five years the company has gone through a tremendous transformation driven by its organic growth in its primary distribution segment and through acquisitions. Consequently, it has delivered expansion which has seen its revenue more than double in five years and profits more than tripled. Although the coronavirus pandemic has slowed business activity in Jamaica generally, and has slowed Derrimon's revenue growth by approximately 1.0% up to September 2020, DTL has remained very profitable. Over the period, the Group delivered profit growth of 27.0% which is a signal of its strength and resiliency given the context of the COVID-19 pandemic.
	52 Week High	\$3.10	BVPS \$0.35	P/E 37.31	P/E 33.77	
	53 Week Low	\$1.61	T12M Div. \$0.01	P/B 7.24	P/B 3.56	
	WoW %	0.27%	Div. Yield % 0.72%			
BUY	YTD %	7.72%				
Seprod Ltd (SEP)	Current Price	\$73.17	EPS \$3.92	ROE 17.00%	ROE 17.30%	With the onset of COVID-19, restaurants, supermarkets, bakeries and corner shops in communities have been forced to operate within restricted parameters or have completely shuttered. Although the COVID-19 pandemic has had a negative impact on Seprod's operations, the Group's diversified portfolio has proven to be resilient thus far. Looking ahead, there are still risks that could negatively impact global supply chains and ultimately affect raw material prices, consumer income and economic growth. Notwithstanding, given our estimate that the worst part of the covid-19 restrictions may be behind us, we are expecting that the companies good performance could likely continue into at least the short term. Over the last five years, the group has invested significantly in strengthening its operations and its resiliency. The investments include consolidating aspects of its business where costs were being duplicated, which is a move to position itself for continued resilience and competitiveness in face of the uncertainty which lies ahead. Over the medium-term, the group has further investments plans to improve its distribution, warehousing and logistics efforts that are expected to augment the Groups' profitability over time.
	52 Week High	\$83.99	BVPS \$23.03	P/E 18.69	P/E 16.34	
	53 Week Low	\$40.00	T12M Div. \$0.30	P/B 3.18	P/B 2.89	
	WoW %	0.23%	Div. Yield % 0.61%			
BUY	YTD %	12.75%				
Wigton Windfarm Ltd(WIG)	Current Price	\$0.65	EPS \$0.07	ROE 18.12%	ROE 6.77%	We believe that Wigton Windfarm provides an advantage for investors in three main ways. The first is diversification, as it is an alternative energy investment which becomes more crucial in the midst of global warming. The second is an increase in medium to long term value driven by profitability. The third is liquidity as the availability of shares is wide and allows a tidy entry into or exit out of the investment. Wigton Windfarm has potential competition from MPC Caribbean and New Fortress Energy but they together form an ecosystem which is needed to move the Caribbean away from its reliance on Fossil Fuels, the 2nd most expensive item on Jamaica's import bill.
	52 Week High	\$0.95	BVPS \$0.37	P/E 9.81	P/E 26.40	
	53 Week Low	\$0.62	T12M Div. \$0.00	P/B 1.78	P/B 1.06	
	WoW %	3.04%	Div. Yield % 0.00%			
HOLD	YTD %	-13.48%				

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# LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE				
April 9, 2021									
Jamaica Broilers Group Ltd (JBG)	Current Price	\$29.16	EPS	\$1.74	ROE	11.53%	ROE	17.30%	Having been in operation for over sixty years, JBG has grown into an iconic brand in Jamaica and now has an increasing presence in the region. The Company's Jamaican operations continue to have a significant impact in the local marketplace through its Best Dressed Chicken and Hi-Pro divisions. However, the local market is mature with growth expected to be low in the medium term. With operations already firmly set in Haiti, JBG moved further to cement a stronghold and presence along the supply chain in the US with its recent acquisitions. In our view, these acquisitions and other inorganic initiatives are expected to be the catalyst for JBG's growth going forward.
	52 Week High	\$33.00	BVPS	\$15.09	P/E	16.76	P/E	16.34	
	53 Week Low	\$23.00	T12M Div.	\$0.13	P/B	1.93	P/B	2.89	
	WoW %	-0.56%	Div. Yield %	0.45%					
	YTD %	-1.01%							
BUY									
Wisynco Ltd (WISYNCO)	Current Price	\$15.27	EPS	\$0.68	ROE	17.38%	ROE	17.30%	Wisynco's customers typically include restaurants, supermarkets retail and whole-sale outlets, schools and other food service outlets. As a result of the social distancing orders being enforced by the Government to curb the spread of the virus, the operations of the Company's customers base have been severely disrupted. We acknowledged, however, that the Company's strong brand presence in the food manufacturing and distribution sector, strong balance sheet and distribution network will go a far way to ensure that Wisynco remain resilient over the long-term. We believe that the Management's experience in distribution and the Company's investment in Innovation will be huge drivers of equity return over time. Notwithstanding, over the short to medium term (up to three years) Wisynco's profitability will be challenged as over 95% of the Company's revenues are generated locally and local consumer demand has declined and likely to remain subdued over the short to medium term. In our scenario, the Company is projected to return to pre-COVID state in the FY 2024/FY 2025.
	52 Week High	\$20.80	BVPS	\$3.89	P/E	22.60	P/E	16.34	
	53 Week Low	\$13.00	T12M Div.	\$0.19	P/B	3.93	P/B	2.89	
	WoW %	-0.43%	Div. Yield %	0.98%					
	YTD %	-9.35%							
HOLD									
Jamaica Producers Group (JP)	Current Price	\$21.30	EPS	\$3.33	ROE	12.08%	ROE	8.50%	Undoubtedly, COVID-19 has had a negative impact on aspects of the business and is likely to continue to weigh on those segments for the remainder of this year, even as the company adjusts its operations to deal with the pandemic. Some segments have remained strong; however, the pandemic has created opportunities for new retail channels to offset the downturn seen in some segments. Importantly, JP is further seeking to strengthen its business over the medium term to improve its capacity, to drive long term growth at the same time it continues to invest in strong food and logistics businesses. Despite COVID-19, JP remains strong with several key financial metrics, including its large and growing cash and securities balance, providing the group with the flexibility to manage and execute on strategies of acquiring undervalued assets.
	52 Week High	\$25.00	BVPS	\$27.56	P/E	6.40	P/E	20.38	
	53 Week Low	\$16.00	T12M Div.	\$0.20	P/B	0.77	P/B	1.28	
	WoW %	-5.33%	Div. Yield %	0.97%					
	YTD %	1.43%							
BUY									

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# Mutual Funds

## JN MUTUAL FUNDS

April 8, 2021



A member of the Group

JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
<b>Global Diversified Income</b>	J\$13.8815	2.70%	0.29%	2.09%
<b>Global Equity</b>	J\$15.0629	4.22%	0.05%	0.00%
<b>Global Fixed Income</b>	J\$12.8539	5.49%	1.56%	5.14%
<b>Global Money Market (US\$)</b>	US\$10.7095	3.53%	0.86%	3.70%
<b>Global Fixed Income (US\$)</b>	US\$10.9137	10.77%	-0.91%	4.55%
<b>Local Money Market</b>	J\$11.1911	4.49%	1.45%	4.15%

	Global Money Market Fund	Local Money Market Fund	Global Fixed Income Funds	Global Diversified Income Fund	Global Equity Fund
<b>Objective</b>	To preserve capital whilst providing US dollar (US\$) money market returns	To preserve capital whilst providing Jamaican Dollar (J\$) money market returns	To achieve an attractive total return through capital injection and income growth. This is offered through two separate Funds: (i) A Jamaican dollar (J\$) and (ii) A US dollar (US\$) fund.	To provide long-term investment growth through exposure to a diversified range of asset classes.	To provide long-term capital growth and risk diversification.
<b>Strategy</b>	To invest in local and global money market instruments for safety, liquidity and yield.	To invest in local and global money market instruments for safety and liquidity and yield	To invest in regional, sovereign debt securities, local and international corporate bonds.	To invest in fixed income, high dividend yielding stocks, REITs and structured products	To invest in the shares of local and international companies which offer strong growth possibilities and consistent income

With a suite of six investment portfolios, each with a distinct financial profile, JN Mutual Funds offers a premium opportunity for investors to align their personal financial strategy with their goals, time horizons and risk profile.

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