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Global Shipping Cost May Continue to Skyrocket as Holiday Season Approaches

As the world emerges from the pandemic-induced recession, surging demand and supply chain bottlenecks have resulted in a sharp increase in inflation in most countries, including Jamaica. As a result, many people, including business leaders, asset managers, and central bankers, are worried. Locally, one major manufacturer recently warned about future price increases, and the Bank of Jamaica's Monetary Policy Committee has indicated that they are willing to consider raising the policy rate at the next policy meeting in September to combat what is expected to be transitory inflation.

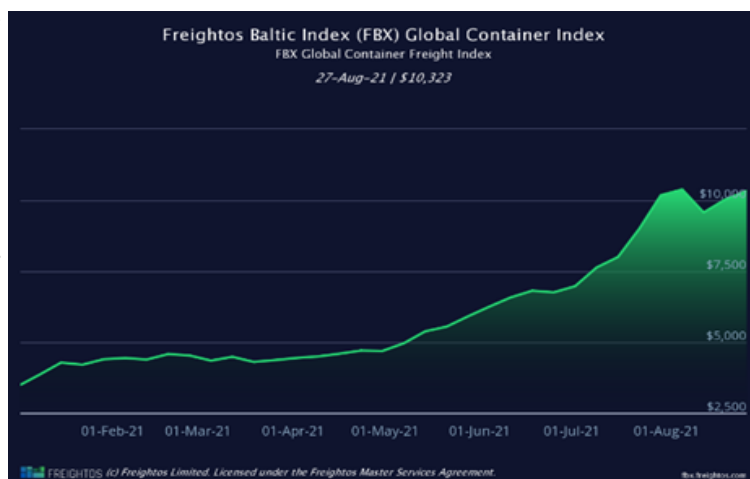
Certainly, one of the main drivers of the rising global inflation has been the sharp increase in shipping costs. The Baltic Exchange Dry Index (BDI), the most widely used measure of the cost of shipping nonliquid bulk commodities, reached 4,195 on Thursday, August 26, 2021, the highest level since May 2010. This increase, which began in the 2nd half of 2020 (2H20), appears to have accelerated since May 2021, with the BDI increasing by more than 130% in the four months. The trend is almost identical when compared to containerized shipments, with the Freightos Baltic Index (FBX): Global Container Freight Index showing a 139% increase in freight cost since May of this year.

According to Fitch Ratings, the main drivers of the increased freight rates have been a combination of rebounding demand for goods in 2H20, supply chain disruptions such as container box shortages, port congestion and more strategic capacity management. They also stated that the increased demand was due to a shift in consumer spending, that is ordering more manufactured goods because many services were unavailable at hotels and restaurants.

However, the recent spike most likely reflected the impact of China's lockdown of two major ports until May 2021, at a time when Chinese exports were at record highs due to rising global demand. Noteworthy, China is the world's largest merchandise exporter, accounting for 13% of total global exports in 2020 (up from 12% in 2019), totaling US\$ 2.3 trillion. China's lockdowns were implemented in response to COVID-19 outbreaks, as they adopted a "zero-tolerance" policy to combat even the smallest COVID-19 occurrence. Inevitably, as companies attempted to shift transport logistics elsewhere, it led to a cataclysm at other ports, such as that of Shanghai, one of the world's busiest. The most recent port to close was reopened on August 25, bringing the two-week suspension to an end.

Where do shipping costs go from here? It's anyone's guess. Although prices have risen significantly, they remain far below the peak during the Global Financial Crisis¹. Given that manufacturers and retailers usually begin their Christmas preparations in the summer, shipping costs may continue to rise in the short term, especially since vaccinations programmes are still being rolled out globally. Our view is that shipping prices will likely remain elevated until the bottlenecks are ironed out.

On the other hand, since vaccination rates are low in most developing countries, COVID-19 outbreaks are still possible, which could lead to a significant reduction in demand if strict restrictions are imposed for a long period. However, this is not a local issue only, as a population that is significantly not vaccinated, could be the source of significant mutations, which could impact countries with higher levels of vaccination, leading to further lockdowns. Ultimately, in a worst-case scenario, this could put downward pressure on shipping costs. As such an outbreak could ease the growth of demand in developed markets especially if it has a negative impact on employment.



Source: WTO-UNCTAD estimates.

¹Source: Trading Economics – Baltic dry Index as of May 1, 2008, was at 11,440.

Currency Markets

International Currency Market

Currency	27-Aug	20-Aug	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
EUR: USD	1.180	1.170	0.37%	0.83%	-3.45%	-0.23%
GBP: USD	1.376	1.362	0.47%	1.04%	0.69%	4.26%
USD: CAD	1.262	1.282	-0.53%	-1.57%	-0.83%	-3.87%
USD: JPY	109.840	109.780	-0.23%	0.05%	6.38%	3.07%

Local Foreign Currency Market

Currency	27-Aug	26-Aug	20-Aug	DoD % Δ	WoW % Δ	YTD % Δ
USD:JMD	152.26	152.53	154.27	-0.18%	-1.30%	6.74%
GBP:JMD	211.69	209.02	209.62	1.28%	0.99%	9.3%
CAD:JMD	121.27	121.05	120.75	0.18%	0.43%	8.8%

Global Interest Rates

Rates	27-Aug	20-Aug	DoD Δ bps	WoW Δ bps	YTD Δ bps	YoY Δ bps
10 Year US Treasury Bond	1.31%	1.26%	-4.21	5.20	39.38	55.48
10 Year UK Gilt	0.58%	0.52%	-2.20	5.50	38.10	24.20
GOJ 2025 Global Bond	3.57%	3.50%	1.30	6.70	11.90	-73.20
5 Year US Treasury Bond	0.80%	0.78%	-4.97	1.78	43.87	48.65
5 Year UK Gilt	0.29%	0.24%	-1.90	4.90	37.60	26.60

Commodities

Commodity	27-Aug	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
Crude Oil	68.73	1.94%	10.29%	41.65%	59.69%
Gold	1817.57	1.40%	2.05%	-4.26%	-5.80%
Silver	24.0262	1.96%	4.35%	-9.00%	-11.07%
Aluminium	2649.5	1.15%	4.04%	33.85%	48.76%

Week in Review: August 23 - August 27, 2021

Local Equity Market

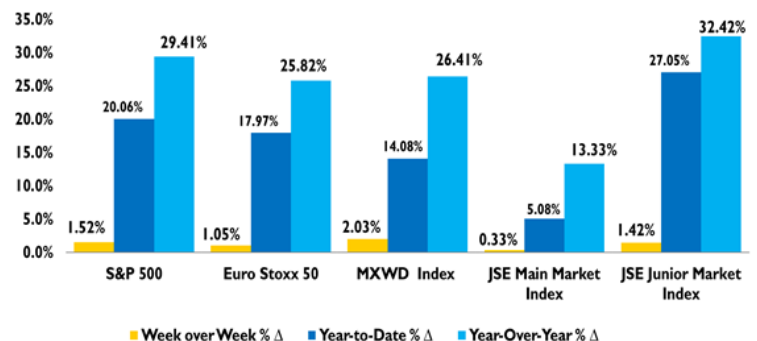
BEST AND WORST PERFORMERS

ADVANCERS		DECLINERS	
FESCO	46.08%	ISP	-30.40%
KLE	28.42%	JETCON	-22.22%
RJR	24.29%	SCIJA	-13.45%

JSE Main Market activity (excluding preference shares) resulted from trading in **47** stocks of which **20** advanced, **26** declined and **1** traded firm. Market volume (excluding preference shares) amounted to **69,177,840** units valued at over **\$1,810,484,523**. JSE Junior Market activity (excluding preference shares) resulted from trading in **41** stocks of which **28** advanced, **12** declined and **1** traded firm. Market volume (excluding preference shares) amounted to **184,197,589** units valued at over **\$513,748,235**.

Global Equity Indices

Index	31-Dec	20-Aug	27-Aug	WoW % Δ	YTD % Δ	YoY % Δ
S&P 500	3,756.07	4,441.67	4,509.37	1.52%	20.06%	29.41%
Euro Stoxx 50	3,552.64	4,147.50	4,190.98	1.05%	17.97%	25.82%
MXWD Index	646.27	722.58	737.24	2.03%	14.08%	26.41%
JSE Main Market Index	395,614.93	414,361.10	415,715.09	0.33%	5.08%	13.33%
JSE Junior Market Index	2,643.38	3,311.18	3,358.31	1.42%	27.05%	32.42%
JSE Combined Index	392,435.92	416,860.99	418,584.13	0.41%	6.66%	14.75%



Upcoming Week: August 30 - September 3, 2021

Country	Report	Period	Forecast	Prior
US	Change in Nonfarm Payrolls	Aug	750,000	943,000
US	Initial Jobless Claims	28-Aug	345,000	353,000
US	ISM Manufacturing	Aug	58.50	59.50
US	Conf. Board Consumer Confidence	Aug	123.0	129.1
UK	Markit UK PMI Manufacturing SA	Aug F	60.10	60.10
CA	MLI Leading Indicator MoM	Jul	--	1.60%
CA	Quarterly GDP Annualized	2Q	0.03	0.06
JN	Jobless Rate	Jul	2.90%	2.90%

LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS	J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE
Guardian Holdings Ltd. (GHL)	Current Price 52 Week High 53 Week Low WoW % YTD %	\$584.48 \$1,134.90 \$560.00 -4.15% 0.34%	EPS \$80.71 BVPS \$443.33 T12M Div. \$0.00 Div. Yield % 0.00%	ROE 18.20% P/E 7.24 P/B 1.32	ROE 15.75% P/E 12.02 P/B 2.05	Guardian is one of the region's leading financial institutions with a long history of delivering strong revenue growth and profitability. The company operates in most of the countries in the Caribbean and is rated among the top five in the major markets in which it operates. Like most companies regionally, the Guardian Group was severely challenged in 2020. However, in 2020, the Group delivered operational and financial results which were creditable along several metrics and especially when taken in the context of the pandemic. While we are very aware that the COVID-19 pandemic is not over, it is very likely that the worst is behind us. With vaccination programme being rolled out regionally and as respective governments continue to ease out of the pandemic the companies within the region continue to gradually recover from the crisis. This recovery is also evident for Guardian Group which posted revenues and profits in Q1 2021 which are significantly above its previous year's.
BUY						
Derrimon Trading Co Ltd (DTL)	Current Price 52 Week High 53 Week Low WoW % YTD %	\$2.32 \$3.00 \$2.00 -1.36% -2.50%	EPS \$0.09 BVPS \$1.24 T12M Div. \$0.01 Div. Yield % 0.44%	ROE 7.36% P/E 25.43 P/B 1.87	ROE 15.78% P/E 21.05 P/B 3.08	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.
BUY						
Seprod Ltd (SEP)	Current Price 52 Week High 53 Week Low WoW % YTD %	\$67.79 \$85.00 \$51.00 5.65% 4.46%	EPS \$3.79 BVPS \$24.48 T12M Div. \$1.10 Div. Yield % 2.04%	ROE 15.47% P/E 17.90 P/B 2.77	ROE 18.15% P/E 24.47 P/B 4.22	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.
HOLD						
Jamaica Producers Group (JP)	Current Price 52 Week High 53 Week Low WoW % YTD %	\$24.32 \$31.00 \$19.00 4.21% 15.83%	EPS \$2.17 BVPS \$14.38 T12M Div. \$0.20 Div. Yield % 0.95%	ROE 15.06% P/E 11.23 P/B 1.69	ROE 12.38% P/E 13.01 P/B 1.60	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.
HOLD						

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LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE				
August 27, 2021									
Wisynco Ltd (WISYNCO)	Current Price	\$15.69	EPS	\$0.70	ROE	17.64%	ROE	18.15%	<p>Wisynco's customers typically include restaurants, supermarkets retail and wholesale 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.</p>
	52 Week High	\$17.50	BVPS	\$3.97	P/E	22.39	P/E	24.47	
	53 Week Low	\$13.00	T12M Div.	\$0.30	P/B	3.95	P/B	4.22	
	WoW %	0.11%	Div. Yield %	1.82%					
	YTD %	-6.85%							
BUY									
GraceKennedy Ltd (GK)	Current Price	\$100.58	EPS	\$7.09	ROE	11.11%	ROE	12.38%	<p>Despite the impact of COVID 19 on economic activity in Jamaica and other source markets, Grace Kennedy demonstrated strong resiliency and remained profitable. During 2020, the company made significant changes to ensure that its products and services were delivered to clients across many channels by ensuring its international supply chains remained strong, active and efficient. GK's recent deal with Nestle is one example of a strategy it has implemented to increase distribution as it moves closer to accomplishing its goal of creating a wider wingspan in the global arena. Additionally, GK's strategic vision of expanding its financial services business in the region is aligned with the acquisition of Scotia Insurance Eastern Caribbean. This addition could help to boost the already thriving insurance segment which grew by more than 20% in 2020 alone. GK's results delivered over the 6-month period ending June 2021, which saw profit after tax coming in at 30% above the amount posted in the same period in the previous year is a further reflection of its continued progress towards improving the operating margins and overall efficiency which will serve it well in the future.</p>
	52 Week High	\$105.99	BVPS	\$63.83	P/E	14.18	P/E	13.01	
	53 Week Low	\$55.01	T12M Div.	\$1.85	P/B	1.58	P/B	1.60	
	WoW %	0.05%	Div. Yield %	3.33%					
	YTD %	60.47%							
HOLD									

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Mutual Funds

JN MUTUAL FUNDS

August 26, 2021



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JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
Global Diversified Income	J\$14.0292	3.62%	1.36%	2.22%
Global Equity	J\$16.0841	14.04%	6.83%	0.00%
Global Fixed Income	J\$13.0731	4.16%	3.29%	4.93%
Global Money Market (US\$)	US\$10.8614	3.55%	2.29%	2.40%
Global Fixed Income (US\$)	US\$11.2372	6.63%	2.03%	3.15%
Local Money Market	J\$11.3909	4.22%	3.27%	4.19%

	Global Money Market Fund	Local Money Market Fund	Global Fixed Income Funds	Global Diversified Income Fund	Global Equity Fund
Objective	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.
Strategy	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.

Contact us

Kingston & St. Andrew

Peta-Gay Walker - 876-588-8886 pmiller@jngroup.com

Kimberly Savage - 876-307-9461 ksavage@jngroup.com

Tamara Honeyghan - 876-557-0082 tamarah@jngroup.com

Gayon Knight - 876-564-9563 gknight@jngroup.com

Jason Adams - 876-550-9504 JYadams@jngroup.com

Mandeville

Horace Walters - 876-487-9267 waltersh@jngroup.com

St. Catherine

Nickesha Mullings-Gilling - 876-891-4736 nmullings@jngroup.com

Montego Bay

Marissa Williams - 876-465-3726 mwilliams1@jngroup.com

Jheanell Adjudah - 876-552-0919 JAadjudah@jngroup.com

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