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Jamaica Stock Exchange Market Capitalization to GDP

The ratio of Market Capitalization (Market Cap) to Gross Domestic Product (GDP), known as the Buffet Indicator, is a measure of the total value of all publicly traded equities in a country divided by the country's nominal GDP. This ratio was popularized in 2001 when Warren Buffet, in an interview with Fortune Magazine, described it as the single best measure to assess the overall stock market. As a rule, the Buffet indicator states that a stock market is likely undervalued if its market cap-to-GDP falls below 94% and overvalued if it rises above 114%.

According to this theory, an investment in a stock market with a low market cap to GDP could produce above-average returns while a market with a high ratio could produce lower than average returns. While not perfect, the Buffet Indicator may be an efficient way of looking at all stocks on an aggregate basis and relates closely to a price to sales ratio, which is a very high-level valuation.

To illustrate the use of this metric in a local context, we plot the total Market Cap of the companies listed on Jamaica Stock Exchange (JSE) and Jamaica's nominal GDP from December 2010 to June 2020. We observed that the total market cap of the listed companies on the JSE on December 31, 2019, was J\$2.04 trillion while the country's nominal GDP stood at J\$2.11 trillion. This result in a ratio of 96% at the end of 2019, suggesting that the overall stock market may have been overvalued.

Over the last 10 years, the average Market Cap to GDP was approximately 43%. In 2010, the aggregate Market Cap of companies listed on the JSE was J\$256 billion compared to J\$1.15 trillion in GDP or a market cap to GDP of only 21%. Over the period, Jamaica's GDP grew at a Compound Annual Growth Rate (CAGR) of 7% while the Market Capitalization of the JSE grew by 27%. The rapid growth in the value of companies listed on the JSE led to the local stock market highlighted as the top-performing stock market in the world by Bloomberg¹ on two occasions and fifth in 2019. Apart from the performance of the companies listed on the exchange, the ratio also benefited from the relatively large amount of new listing (IPOs) on the local stock market. Over the period under review, more than 40 new companies were listed on the JSE.

However, up to June 30, 2020, the combined index of the JSE lost over 24.6% of its value on a year to date basis. The result is that the market cap of the JSE listed companies fell to J\$1.59 trillion while Jamaica's nominal GDP report at the end of June was J\$2.03 trillion, producing a ratio of 78%. At 78%, the Buffet Indicator suggests that the market may have been modestly undervalued.

Shortcomings of the Indicator

While the market cap to GDP ratio may be useful as a high-level tool to assess the relative valuation of the overall market, we must point out that it comes with some major flaws.

For example:

- I. It does not consider the profitability of businesses but only their top-line revenue figure which can be misleading.
- II. The ratio is also impacted by trends in the market. For example, periods, where many companies are added or de-listed, may result in significant changes to the ratio. All else being equal, if there was a large increase in the percentage of companies that are public vs private, the Market Cap to GDP ratio would increase, as in the case of Jamaica, even though nothing may have changed from a valuation perspective.
- III. The number of publicly listed companies in a country versus the number of private companies and their contribution to GDP must also be taken into consideration. For example, in Jamaica, there is a limited number of companies in tourism, mining and utilities listed on the exchange and companies in these sectors are large contributors to Jamaica's GDP.

Ratio = Total Market Cap / GDP	Valuation
Ratio ≤ 73%	Significantly Undervalued
73% < Ratio ≤ 93%	Modestly Undervalued
93% < Ratio ≤ 114%	Fair Valued
114% < Ratio ≤ 135%	Modestly Overvalued
Ratio > 135%	Significantly Overvalued



¹http://www.jamaicaobserver.com/business-observer/jse-misses-top-spot-for-best-performing-stock-exchange-in-2019_185767?profile=1606

We believe that while the data has limitations that must be noted, the Market Cap to GDP Ratio or Buffett Indicator provides a great insight as to the level of valuations locally. However, this ratio can be combined with other technical factors such as the Price to Earnings (P/E) ratio of the market to test whether valuations are high.

Additionally, given the increased volatility expected in the equities market over the short to medium term as the COVID-19 pandemic evolves investors may find it increasingly difficult to select individual stocks likely to outperform over the next four to eight quarters. Consequently, we strongly recommend that investors use a diversified approach to invest at this time, as diversification reduces risk from a portfolio perspective. In Jamaica, a quick and easy way for investors to achieve diversification is through Mutual Funds or collectively investment schemes that pool investors funds and invest in a broad basket of equities.

Currency Markets

International Currency Market

Currency	23-Oct	16-Oct	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
EUR: USD	1.186	1.172	0.37%	1.23%	5.79%	6.58%
GBP: USD	1.305	1.292	-0.27%	1.03%	-1.58%	1.05%
USD: CAD	1.313	1.319	-0.02%	-0.42%	1.10%	0.47%
USD: JPY	104.700	105.400	-0.15%	-0.66%	-3.60%	-3.67%

Local Foreign Currency Market

Currency	23-Oct	22-Oct	16-Oct	DoD % Δ	WoW % Δ	YTD % Δ
USD:JMD	146.74	146.65	146.65	0.06%	0.07%	10.69%
GBP:JMD	193.12	191.43	191.75	0.88%	0.71%	12.5%
CAD:JMD	112.62	113.13	110.81	-0.45%	1.63%	12.4%

Global Interest Rates

Rates	23-Oct	16-Oct	DoD Δ bps	WoW Δ bps	YTD Δ bps	YoY Δ bps
10 Year US Treasury Bond	0.84%	0.75%	-1.83	9.23	-107.96	-92.63
10 Year UK Gilt	0.28%	0.18%	-0.40	9.80	-54.20	-40.50
GOJ 2025 Global Bond	4.17%	4.16%	0.00	1.40	32.00	17.10
5 Year US Treasury Bond	0.37%	0.32%	-0.62	4.68	-132.25	-122.23
5 Year UK Gilt	-0.03%	-0.08%	-0.60	4.50	-63.20	-51.30

Week in Review: Oct 19 - Oct 23, 2020

Local Equity Market

BEST AND WORST PERFORMERS

ADVANCERS		DECLINERS	
PAL	27.81%	PROVEN	-23.85%
PURITY	18.18%	KLE	-22.54%
SSLVC	18.00%	ECL	-17.32%

JSE Main Market activity (excluding preference shares) resulted from trading in **45** stocks of which **22** advanced, **19** declined and **4** traded firm. Market volume (excluding preference shares) amounted to **115,846,278** units valued at over **\$478,442,614**. JSE Junior Market activity (excluding preference shares) resulted from trading in **40** stocks of which **15** advanced, **21** declined and **4** traded firm. Market volume (excluding preference shares) amounted to **16,510,129** units valued at over **\$32,981,083**.

Global Equity Indices

Index	31-Dec	16-Oct	23-Oct	WoW % Δ	YTD % Δ	YoY % Δ
S&P 500	3,230.65	3,483.81	3,464.62	-0.55%	7.24%	15.31%
Euro Stoxx 50	3,745.15	3,245.47	3,198.86	-1.44%	-14.59%	-11.31%
MXWD Index	565.24	583.11	581.90	-0.21%	2.95%	10.12%
JSE Main Market Index	509,916.44	377,798.93	376,431.65	-0.36%	-26.18%	-24.49%
JSE Junior Market Index	3,348.97	2,511.50	2,467.78	-1.74%	-26.31%	-26.38%
JSE Combined Index	505,253.98	374,625.71	372,900.79	-0.46%	-26.20%	-24.64%

Upcoming Week: Oct 26 - Oct 30, 2020

Country	Report	Period	Forecast	Prior
US	Initial Jobless	24-Oct	788,000	787,000
US	GDP	3Q A	31.90%	-31.40%
US	Consumer	Oct	101.80	101.80
CA	Bank of	28-Oct	0.25%	0.25%
JN	Production	Sep P	3.00%	1.00%
JN	Jobless Rate	Sep	3.10%	3.00%
FR	CPI YoY	Oct P	0.10%	0.00%

LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE
October 23, 2020					
JMMB Group Ltd (JMMBGL)	<p>Current Price \$29.61</p> <p>52 Week High \$48.50</p> <p>53 Week Low \$28.00</p> <p>WoW % 3.55%</p> <p>YTD % -36.40%</p>	<p>EPS \$3.44</p> <p>BVPS \$24.01</p> <p>T12M Div. \$0.49</p> <p>Div. Yield % 1.66%</p>	<p>ROE 14.33%</p> <p>P/E 8.61</p> <p>P/B 1.23</p>	<p>ROE 16.49%</p> <p>P/E 17.07</p> <p>P/B 2.26</p>	<p>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 Sagor Financial Corporation allows JMMBGL to achieve further diversification and increased profitability.</p>
	BUY				
Access Financial Services Ltd (AFS)	<p>Current Price \$21.82</p> <p>52 Week High \$41.98</p> <p>53 Week Low \$17.65</p> <p>WoW % 12.21%</p> <p>YTD % -36.6%</p>	<p>EPS \$0.72</p> <p>BVPS \$8.16</p> <p>T12M Div. \$0.49</p> <p>Div. Yield % 2.25%</p>	<p>ROE 8.83%</p> <p>P/E 30.29</p> <p>P/B 2.67</p>	<p>ROE 22.83%</p> <p>P/E 54.80</p> <p>P/B 2.60</p>	<p>AFS has experienced fluctuating results over the last four years, which has translated into less than steady growth in net profits. Due to the microfinance industry's importance in meeting the needs of the "unbanked", the industry has been in the focus of the government in recent times and is expected to face new regulations in the near term. Among others, the Microcredit Act tabled in parliament in 2019, is expected to curb the "excessive interest rates" being charged by microlenders. However, this and other regulations could likely make the industry less attractive and may ultimately lead to a slowing of funding flows to the vital MSMEs. The current coronavirus pandemic is another major downside risk that is already leading to a curtailment of economic activity in Jamaica. As AFS' loan portfolio is heavily skewed towards personal loans, we project that the company will struggle to grow its loan portfolio over the short to medium term due to the expected decline in loan demand and that its provision for credit losses will increase as its borrowers' creditworthiness becomes impaired.</p>
	SELL				
Seprod Ltd (SEP)	<p>Current Price \$59.52</p> <p>52 Week High \$70.00</p> <p>53 Week Low \$30.00</p> <p>WoW % 2.54%</p> <p>YTD % 16.74%</p>	<p>EPS \$3.19</p> <p>BVPS \$22.55</p> <p>T12M Div. \$1.00</p> <p>Div. Yield % 1.68%</p>	<p>ROE 14.14%</p> <p>P/E 18.67</p> <p>P/B 2.64</p>	<p>ROE 13.31%</p> <p>P/E 26.89</p> <p>P/B 3.14</p>	<p>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. The restrictions being placed on some of Seprod's key customer groups are likely to lead to a depression in the consumption of the company's products, notwithstanding that most of what Seprod manufactures and distributes are 'necessity items'. Our estimate is that Seprod's revenues will contract by ~14% in FY 2020. As thousands of Jamaicans have lost their jobs, unemployment will likely increase in the short to medium term. Even in cases where jobs are retained, some employers have looked to salary cuts in keeping employees. With the expected reduction in income it is likely that the support for the company's "normal goods" will be low.</p>
	HOLD				
Wigton Windfarm Ltd (WIG)	<p>Current Price \$0.80</p> <p>52 Week High \$1.15</p> <p>53 Week Low \$0.50</p> <p>WoW % 10.28%</p> <p>YTD % -18.06%</p>	<p>EPS \$0.05</p> <p>BVPS \$0.34</p> <p>T12M Div. \$0.00</p> <p>Div. Yield % 0.00%</p>	<p>ROE 15.89%</p> <p>P/E 14.69</p> <p>P/B 2.33</p>	<p>ROE 6.04%</p> <p>P/E 28.33</p> <p>P/B 1.19</p>	<p>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.</p>
	HOLD				

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LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE		
October 23, 2020							
Jamaica Broilers Group Ltd (JBG)	Current Price	\$27.82	EPS	\$1.15	ROE 8.33%	<p>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.</p>	
	52 Week High	\$41.00	BVPS	\$13.83	ROE 13.31%		
	53 Week Low	\$21.00	T12M Div.	\$0.57	P/E 24.15		P/E 26.89
	WoW %	3.43%	Div. Yield %	2.05%	P/B 2.01		P/B 3.14
	YTD %	-31.98%					
BUY							
Wisynco Ltd (WISYNCO)	Current Price	\$16.33	EPS	\$0.77	ROE 22.37%	<p>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 acknowledge, 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	\$26.00	BVPS	\$3.46	ROE 13.31%		
	53 Week Low	\$11.50	T12M Div.	\$0.19	P/E 21.11		P/E 26.89
	WoW %	1.75%	Div. Yield %	1.16%	P/B 4.72		P/B 3.14
	YTD %	-29.91%					
HOLD							

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Mutual Funds

JN MUTUAL FUNDS

October 22, 2020



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JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
Global Diversified Income	J\$13.5826	-4.25%	-6.98%	1.90%
Global Equity	J\$14.1114	-16.22%	-21.95%	0.00%
Global Fixed Income	J\$12.6529	5.90%	5.59%	4.64%
Global Money Market (US\$)	US\$10.5442	3.26%	2.73%	3.74%
Global Fixed Income (US\$)	US\$10.6003	2.98%	2.56%	4.89%
Local Money Market	J\$11.0019	3.92%	3.42%	4.18%

	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.

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