

Understanding the Debt-to-GDP Ratio

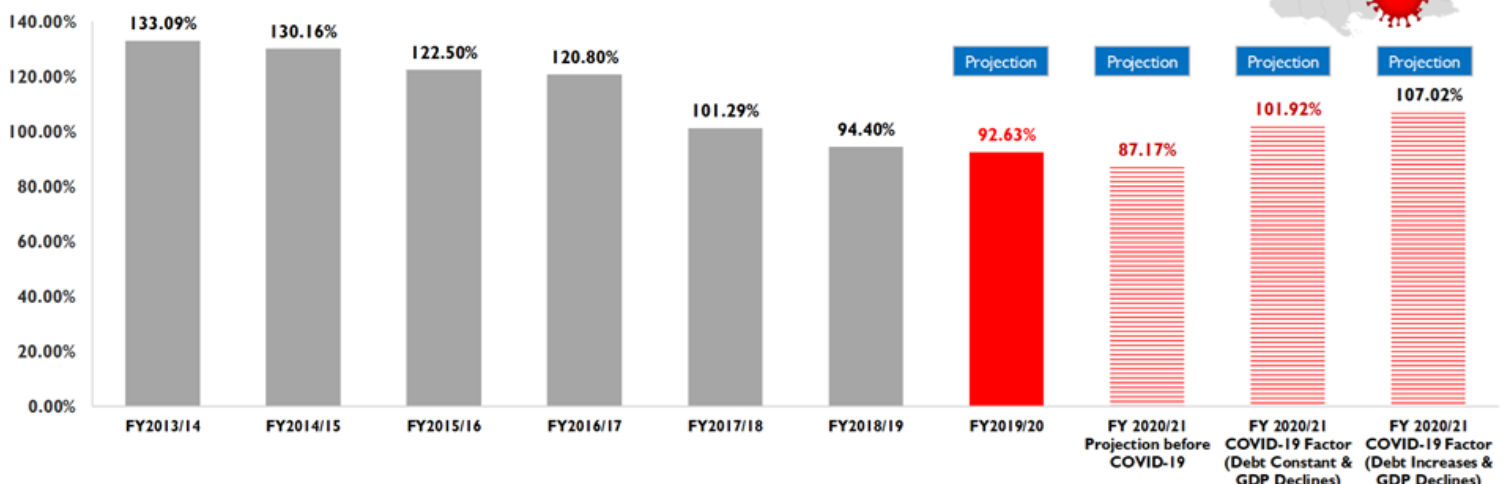
A country's debt to Gross Domestic Product (GDP) ratio is a very useful tool for its stakeholders including investors, its leaders and economists. However, this ratio is often very confusing at first for persons unfamiliar with the metric. Expressed as a percentage, the debt-to-GDP is the ratio of a country's debt to its GDP or simply, the country's public debt to its annual economic output. This ratio allows economists and other stakeholders to make a quick assessment of a country's financial position and its capacity to repay its debt. Intuitively, a high debt-to-GDP is undesirable as a high ratio indicates that a country may not generate enough to pay off its debt, while a low ratio means that payment demands are easily met with high economic activity.

Typically, the movements in either debt, GDP or both lead to an improvement (reduction) or worsening (increase) of a country's debt to GDP ratio. Assuming GDP remains constant, when a country increases its borrowing, the numerator (debt) increases and as a result the ratio increases. Take Jamaica, for example, its debt to GDP at the end of the fiscal year (FY) 2018/19 was 94.4% calculated with a debt of J\$1.94 trillion divided by J\$2.05 trillion in GDP. Holding the GDP constant at J\$2.05 trillion and assuming debt moves to J\$2.12 trillion in the 2019/20 period, the country's debt to GDP ratio at the end of the period would have been 103.4%. However, what happens if GDP declines? If we make a similar assumption that debt is held constant at J\$1.94 trillion while GDP decreases to J\$1.88 trillion, debt to GDP ratio at the end of the period increases to 103.2%. Noteworthy as well, if both debt and GDP increase, in a given year, the size of the debt increase must be higher than that of the GDP for the ratio to increase. Similarly, if both debt and GDP were to fall, the extent of the GDP fall would have to be greater than the decline in debt for the ratio to increase.

An important point to keep in mind is that there is a connection between a country's debt accumulation and its economic growth. Countries may increase their debt burden to generate economic activity and increase GDP. However, once the debt capacity limits are exceeded and economic activity slows, so will the GDP growth of the country as debt creates a drag on growth. As a high level of debt puts economic capital at a disadvantage, many countries are transitioning to what they term as a sustainable debt path to minimize debt that has now become unsustainable or mitigate against such a situation.

Jamaica had taken a course of debt reduction and economic reform, driven by fiscal rules and supported by the two consecutive reform programmes by the International Monetary Fund. Consequently, debt to GDP, which stood at over 133% in FY 2013/14 fell to 94.4% at the end of FY 2019/20 and in the government's fiscal policy paper published in February of this year, the debt to GDP was still on a sustainable path towards the goal of 60% by the end of for FY 2025/26. However, with the onset of the COVID-19 pandemic and with the number of cases worsening for Jamaica's main trading partners, Jamaica's GDP is projected to see a contraction of up to 10% according to the Bank of Jamaica (BOJ). With the reduction in economic activity and loss of revenues, from taxes for example, debt is likely to increase. As a result, Jamaica's debt-to-GDP target of 60.0% was postponed by the government from FY 2025/26 to FY 2027/28 on this basis.

Jamaica's Debt to GDP Ratio



Jamaica's debt to GDP ratio, which stood at 133.09% in FY 2013/14 declined to reach 94.4% at the end of FY 2018/19. Additionally, in February 2020 the government had projected Jamaica's debt to stand at J\$1.97 trillion at the end of FY 2019/20. From this, debt to GDP ratio of 92.63% was estimated based on the GDP outturn of J\$2.13 trillion by the Statistical Institute of Jamaica. At the same time, and prior to the global pandemic, the government had also projected that the ratio would have decreased to 87.17% in FY 2020/21 which was in line with the sustainable debt path. However, if we assume that Jamaica's GDP contracts by 8.5% (mid-point of BOJ's last estimate) in FY 2020/21, even when holding debt constant, Jamaica's debt-to-GDP is projected to be 101.92%.

If Jamaica is unable to "reopen its economy" to generate adequate business activity the government will likely need to borrow to provide social support to the thousands currently out of employment as well as undertake further spending to boost its health care capacity. Considering this, we hypothetically applied a 5% increase in the debt level projected for FY 2020/21 in the fiscal paper, by the government in February 2020. When this adjustment is made along with an 8.5% contraction in GDP, the debt-to-GDP ratio is projected to climb to 107.02% at the end of FY 2020/21.

Jamaica entered 2020 in a relatively strong position on the back of a well-crafted economic reform program, with fiscal buffers and organically grown Net International Reserves of over US\$3.0 billion. These have been used to good effect to cushion the effects of the pandemic including implementing health care measures, which helped to slow the spread of the virus in the early stages. Notwithstanding, Jamaica's economy has deteriorated significantly and to prevent a further fallout from the pandemic, continued support will be needed to boost its health care capacity as well as provide for the vulnerable amid the expected high unemployment.

Currency Markets

International Currency Market

Currency	25-Sep	18-Sep	DoD % Δ	WoW % Δ	YTD % Δ	YoY % Δ
EUR: USD	1.163	1.184	-0.37%	-1.78%	3.71%	6.27%
GBP: USD	1.275	1.290	-0.02%	-1.33%	-3.86%	3.17%
USD: CAD	1.339	1.320	0.20%	1.40%	3.07%	0.91%
USD: JPY	105.590	104.570	0.17%	0.98%	-2.78%	-2.02%

Local Foreign Currency Market

Currency	25-Sep	24-Sep	18-Sep	DoD % Δ	WoW % Δ	YTD % Δ
USD:JMD	141.98	141.94	142.76	0.03%	-0.55%	7.10%
GBP:JMD	183.32	183.53	184.60	-0.12%	-0.70%	6.8%
CAD:JMD	108.02	107.55	108.47	0.43%	-0.41%	7.9%

Global Interest Rates

Rates	25-Sep	18-Sep	DoD Δ bps	WoW Δ bps	YTD Δ bps	YoY Δ bps
10 Year US Treasury Bond	0.65%	0.69%	-2.00	-4.00	-127.00	-109.00
10 Year UK Gilt	0.19%	0.18%	-3.00	1.00	-63.00	-35.00
GOJ 2025 Global Bond	4.38%	4.20%	-1.00	18.00	53.00	42.00
5 Year US Treasury Bond	0.26%	0.28%	-2.00	-2.00	-143.00	-135.00
5 Year UK Gilt	-0.09%	-0.13%	-2.00	4.00	-69.00	-47.00

Week in Review: Sept 21 - Sept 25, 2020

Local Equity Market

BEST AND WORST PERFORMERS

ADVANCERS		DECLINERS	
BIL	34.00%	CPFV	-12.49%
PTL	27.82%	BPOW	-11.14%
ISP	25.00%	AMG	-10.06%

JSE Main Market activity (excluding preference shares) resulted from trading in 44 stocks of which 23 advanced, 17 declined and 4 traded firm. Market volume (excluding preference shares) amounted to 85,286,573 units valued at over \$1,675,805,451. JSE Junior Market activity (excluding preference shares) resulted from trading in 39 stocks of which 19 advanced, 16 declined and 4 traded firm. Market volume (excluding preference shares) amounted to 16,570,943 units valued at over \$33,285,943.








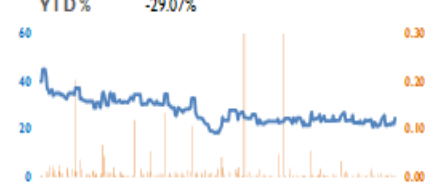



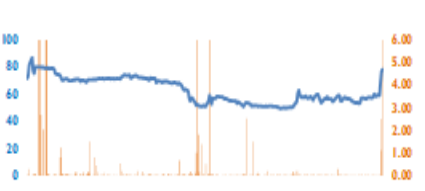




Global Equity Indices

Index	31-Dec	18-Sep	25-Sep	WoW % Δ	YTD % Δ	YoY % Δ
S&P 500	3,230.65	3,319.47	3,298.46	-0.63%	2.10%	10.51%
Euro Stoxx 50	3,745.15	3,283.69	3,137.06	-4.47%	-16.24%	-10.70%
MXWD Index	565.24	567.02	555.33	-2.06%	-1.75%	6.41%
JSE Main Market Index	509,916.44	368,392.30	372,604.36	1.14%	-26.93%	-26.98%
JSE Junior Market Index	3,348.97	2,497.10	2,539.17	1.68%	-24.18%	-25.54%
JSE Combined Index	505,253.98	365,814.95	370,142.40	1.18%	-26.74%	-26.88%

Upcoming Week: Sept 28 - Oct 2, 2020

Country	Report	Period	Forecast	Prior
US	Change in Nonfarm Payrolls	Sep	900,000	1,370,000
US	Initial Jobless Claims	26-Sep-20	850,000	870,000
US	GDP Annualized QoQ	2Q T	-31.70%	-31.70%
JN	Jobless Rate	Aug	3.00%	2.90%
JN	Industrial Production MoM	Aug P	1.50%	8.70%
UK	GDP YoY	2Q F	-0.22	-0.22
UK	Markit UK PMI Manufacturing SA	Sep F	54.30	54.30

LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS	Js	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE
September 25, 2020						
JMMB Group Ltd (JMMBGL)	Current Price \$29.48 52 Week High \$48.50 53 Week Low \$29.00 WoW % 0.08% YTD % -36.67%		EPS \$3.44 BVPS \$24.01 T12M Div. \$0.49 Div. Yield % 1.66%	 ROE 14.33%  P/E 8.57  P/B 1.23	ROE 16.49% P/E 15.92 P/B 1.61	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 Sagcor Financial Corporation allows JMMBGL to achieve further diversification and increased profitability.
BUY						
Access Financial Services Ltd (AFS)	Current Price \$24.45 52 Week High \$45.00 53 Week Low \$17.65 WoW % 10.78% YTD % -29.07%		EPS \$0.72 BVPS \$8.16 T12M Div. \$0.49 Div. Yield % 2.00%	 ROE 8.83%  P/E 33.94  P/B 3.00	ROE 21.46% P/E 49.12 P/B 2.46	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.
SELL						
Barita Investments Ltd (BIL)	Current Price \$77.91 52 Week High \$90.00 53 Week Low \$45.00 WoW % 33.99% YTD % 7.66%		EPS \$2.77 BVPS \$18.47 T12M Div. \$1.27 Div. Yield % 1.63%	 ROE 15.02%  P/E 28.09  P/B 4.22	ROE 16.49% P/E 15.92 P/B 1.61	Undoubtedly, the COVID-19 pandemic has disrupted financial markets locally and globally and is likely to pose significant challenges for businesses going forward. So far, however, Barita has responded well to the pandemic from a social and operational perspective. For the 9 months ended June 30, 2020 the Company posted record net profits of \$2.0B, an amount which has so far surpassed the net profits posted for the entire FY 2019. For the quarter ended June 30, 2020, set on the backdrop of COVID-19 pandemic, the company recorded its highest quarterly net profit ever. To boost its growth prospects, the Company intends to use the funds being raised through this APO to expand its reach locally and regionally, upgrade its IT infrastructure, add further financial support to its investment banking business and fund other new products. Therefore, Barita provides investors with a growth opportunity within the financial services sector and as a result, we valued the Company with this in mind.
BUY						
Wigton Windfarm Ltd (WIG)	Current Price \$0.79 52 Week High \$1.15 53 Week Low \$0.50 WoW % 1.94% YTD % -19.08%		EPS \$0.05 BVPS \$0.34 T12M Div. \$0.00 Div. Yield % 0.00%	 ROE 15.89%  P/E 14.51  P/B 2.31	ROE 6.04% P/E 27.54 P/B 1.20	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.
HOLD						

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LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE		
September 25, 2020							
Jamaica Broilers Group Ltd (JBG)	Current Price	\$25.99	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 12.32%		
	53 Week Low	\$21.00	T12M Div.	\$0.57	P/E 22.56		P/E 29.02
	WoW %	0.77%	Div. Yield %	2.19%	P/B 1.88		P/B 3.19
BUY	YTD %	-36.46%					
Wisynco Ltd (WISYNCO)	Current Price	\$16.05	EPS	\$0.75	ROE 21.60%	<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	\$26.00	BVPS	\$3.46	ROE 12.32%		
	53 Week Low	\$11.50	T12M Div.	\$0.19	P/E 21.48		P/E 29.02
	WoW %	-0.73%	Div. Yield %	1.18%	P/B 4.64		P/B 3.19
HOLD	YTD %	-31.13%					
Seprod Ltd (SEP)	Current Price	\$56.00	EPS	\$2.21	ROE 9.96%	<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>	
	52 Week High	\$59.00	BVPS	\$22.18	ROE 12.32%		
	53 Week Low	\$30.00	T12M Div.	\$1.00	P/E 25.34		P/E 29.02
	WoW %	2.92%	Div. Yield %	1.79%	P/B 2.52		P/B 3.19
HOLD	YTD %	9.84%					

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Mutual Funds

JN MUTUAL FUNDS

September 24, 2020



A member of the Group

JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
Global Diversified Income	J\$13.4767	-5.24%	7.70%	2.31%
Global Equity	J\$13.8168	-20.26%	-23.58%	0.00%
Global Fixed Income	J\$12.5035	5.36%	4.34%	4.47%
Global Money Market (US\$)	US\$10.5133	3.14%	2.43%	3.67%
Global Fixed Income (US\$)	US\$10.4807	2.00%	1.40%	5.36%
Local Money Market	J\$10.9194	3.41%	2.64%	4.12%

	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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