

# PORTFOLIO STRATEGIES

# Importance of Diversification

## Economic Fallout of Hurricane Melissa

Hurricane Melissa has materially impacted the outlook on Jamaica's economic growth. The impact on Tourism and agriculture are the most stark, and given the estimated contribution of 30% and 8% respectively, the negative fall out on GDP in the near-term is evident.

We forecast a decline of more than 5% in the Tourism sector, driven by the expectation that 70% of accommodations and resorts will remain unavailable for most of the winter tourist season. Recovery will be gradual, with operations anticipated to return to 80%–90% capacity by late February through March, marking the close of the winter season.

More than 70% of the country's total agricultural output—concentrated in St. Elizabeth, Westmoreland, Hanover, St. James, Trelawny, Manchester, and Clarendon—was exposed to the storm's most intense winds. As a result, we conservatively estimate Agricultural sector losses for Q4 2025 at 27%–35%. Looking ahead, the agricultural sector is projected to contract by 2% for calendar year 2025 and by 15% for fiscal year 2025/26.

Should domestic food prices rise by 50% over the next six months, inflationary pressures will intensify. Without decisive government intervention—such as temporarily

suspending or reducing import duties on foreign substitutes—domestic inflation could accelerate sharply. Our preliminary forecast suggests inflation will normalize to the Bank of Jamaica's 5% target midpoint by June 2027.

## Importance of Diversification

The storm serves as a stark reminder of the importance of portfolio diversification. Even modest investment balances can benefit from this principle through Unit Trust products, which offer access to a range of asset classes. By diversifying across multiple Unit Trusts, investors can gain exposure to equities, bonds, and alternative investments—tailored to their risk tolerance and investment horizon. For those with larger portfolios, working with a financial advisor can help construct a balanced mix that aligns with long-term goals.

Geographical diversification is another key consideration. Portfolios heavily concentrated in Jamaican-listed entities may achieve industry diversification, but geographic diversification remains limited. This is because many companies on the Jamaica Stock Exchange derive the bulk of their revenues locally. Expanding investment horizons beyond national borders can help mitigate country-specific risks and enhance portfolio resilience.

# Global Review and Outlook

## Global Outlook

In its latest World Economic Outlook, the International Monetary Fund (IMF) has revised its global growth projections downward, forecasting a deceleration to 3.2% in 2025 and 3.1% in 2026, compared to 3.3% in 2024. Despite the slowdown, the overall outlook has improved relative to the April 2025 update. This more optimistic tone is underpinned by several key developments: notably, stronger-than-anticipated front-loading of trade activity ahead of expected tariff hikes, lower-than-expected effective U.S. tariffs compared to initial announcements, and fiscal expansion in select major economies.

On the inflation front, the IMF expects headline global inflation to ease to 4.2% in 2025 and 3.7% in 2026, aligning closely with its July 2025 projections. However, regional dynamics vary. The United States is projected to see inflation remain above its target, reflecting persistent domestic pressures. In contrast, other large economies are expected to experience more subdued inflationary trends.

## US Fed Policy Update: Rate Cut Signal Growing Economic Concerns

In a sustained effort to bolster economic stability, the U.S. Federal Reserve has implemented a total of 100 basis points in rate cuts over the course of 2024. The

momentum has carried into 2025, as the Fed responded to emerging signs of labor market softness with two additional 25 basis point cuts at its September 17 and October 29 meetings. As a result, the current rate now stands between 3.75% and 4.00%, reflecting a more accommodative stance amid rising economic uncertainty.

As of October 31, 2025, market sentiment continues to lean toward monetary easing by the U.S. Federal Reserve. According to the CME FedWatch Tool, there is a 63.0% probability of a rate cut at the upcoming December 10 meeting. Looking ahead to January 28, 2026, that probability rises to 74.5%, signaling growing confidence in a dovish pivot. While the likelihood of further cuts in Q4 2025 remains modest, the broader outlook suggests a strong chance of easing in the months ahead.

Policymakers are navigating a delicate balance, and market participants are closely monitoring for clues on the future trajectory of monetary policy. The central bank's cautious tone underscores its heightened sensitivity to incoming data—particularly labor market indicators—which will likely play a pivotal role in shaping decisions ahead.

# Jamaica Review and Outlook

## Inflation Trends: Year-on-Year and Monthly Movements

In September, consumer prices saw a modest uptick, with overall inflation rising by 0.8% for the month. This increase was primarily driven by higher costs in Food and Non-Alcoholic Beverages, which rose by 0.9%, and Housing, Water, Electricity, Gas and Other Fuels, which climbed by 1.0%.

Looking at the broader picture over the past year, the Consumer Price Index (CPI) rose by 2.1% between September 2024 and September 2025.

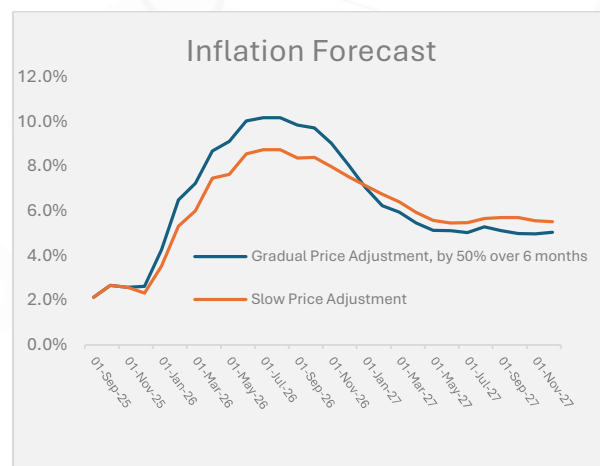
Meanwhile, core inflation—which excludes volatile food and energy prices—remained within the Bank of Jamaica’s target range for the sixth consecutive month. In August 2025, core inflation registered at 4.2%, a slight moderation from 4.3% in July, signaling continued stability in underlying price pressures.

## Inflation Outlook

In the wake of Hurricane Melissa, economic indicators suggest a notable shift in the inflation trajectory. The storm’s disruption to agricultural production and supply chains is expected to exert upward pressure on domestic food prices, a key component of the consumer price index.

Two plausible scenarios are emerging. The first involves a sharp and immediate spike in food prices, while the second points to a more gradual, yet persistent, increase. Regardless of the pace, both outcomes are likely to drive headline inflation significantly higher in the short term.

However, this inflationary surge is not expected to persist indefinitely. As supply conditions normalize and seasonal factors stabilize, inflation is projected to taper off, returning to the midpoint of the Bank of Jamaica’s target range by June 2027. Policymakers and market participants will be closely monitoring this trajectory as they assess the broader implications for monetary policy and investment strategy.



# Dominican Republic Outlook

## Inflation Outlook

Inflation in the Dominican Republic continues to hold steady within the Central Bank's target range of 3%–5%, reflecting a favorable macroeconomic environment. This stability is underpinned by a combination of low external and domestic prices, tight monetary policy, and subdued domestic growth—all of which have helped ease inflationary pressures.

Looking ahead, inflation is expected to remain subdued. Key contributing factors include stable global commodity prices—particularly in the energy sector—alongside increased domestic agricultural output and restrained credit growth due to tight money market conditions. These dynamics suggest a continuation of the current low-inflation trend.

Furthermore, risks to the inflation outlook appear balanced. On one hand, declining commodity prices support the current trajectory. On the other, potential disruptions from geopolitical tensions or shifts in global trade dynamics could reverse these favorable trends and introduce inflationary pressures.

## Policy Rate and Outlook

The Central Bank of the Dominican Republic (CBDR) has maintained its policy rate at 5.75% since December 2024, following three rate cuts earlier that year in response to falling inflation. While inflation remains comfortably within target, the CBDR is exercising caution. Concerns include the possibility of increased import demand if monetary conditions ease further, risks of peso depreciation, and uncertainty surrounding U.S. trade policy, which could lead to imported inflation.

Looking forward, the policy bias leans slightly toward a rate cut. This is supported by persistently low domestic and global prices, weak external demand, and lower U.S. interest rates. However, the outlook remains conditional. A sharp uptick in energy prices could prompt the CBDR to reverse course and tighten policy to contain inflationary risks.



# Trinidad and Tobago Outlook

## Inflation Review

Headline inflation in Trinidad & Tobago continued its downward trajectory, registering at 1.5% in July 2025—significantly lower than the 4.7% recorded a year earlier. This moderation reflects easing global commodity prices and stable domestic conditions. While inflation is expected to remain subdued in the near term, upside risks persist. Geopolitical tensions and potential disruptions in global trade could reignite price pressures, warranting close monitoring.

## Monetary Policy: Stability with a Watchful Eye

The Central Bank of Trinidad and Tobago (CBTT) maintained its policy rate at 3.50% throughout FY 2024, signaling a commitment to monetary stability. The narrowing interest rate differential with the U.S. has helped ease external pressures, particularly on capital flows. While the CBTT continues to prioritize growth in the non-energy sector, it may be compelled to adjust rates upward should foreign exchange (FX) pressures intensify.

## Growth Outlook: Non-Energy Sector Takes the Lead

Economic growth for 2025 is projected at

1.6%, driven entirely by the non-energy sector. Key contributors include Tourism,

Trade & Repairs, and Transportation & Storage—sectors that have shown resilience and adaptability. However, the underperformance of the energy sector, coupled with weaker global economic conditions, poses downside risks to the overall growth trajectory.

## Exchange Rate & Reserves: Stability Amid Structural Challenges

The Trinidad and Tobago dollar (TTD) remains stable at TT\$6.75/USD, providing a measure of confidence in the FX market. Nonetheless, foreign reserves have declined to US\$4.6 billion, equivalent to 6.6 months of import cover. Medium- to long-term depreciation risks are rising, driven by declining energy output, persistent FX demand, and falling reserves. A potential credit rating downgrade could further exacerbate these vulnerabilities.

# Fixed Income Outlook

## Risks to rate cuts in the US

To date, the Fed has implemented rate cuts totalling 50 basis points in 2025, with one final FOMC meeting scheduled for December. While this trend underscores a bias toward easing, the road ahead is far from straightforward. Downside risks to additional cuts remain firmly on the table.

Despite strong arguments for continued accommodation, external factors—particularly trade policy shifts and geopolitical tensions—pose potential headwinds. Inflationary pressures could resurface if tariff disputes intensify or global uncertainty deepens. The recent tariff agreement between the U.S. and China has alleviated some immediate concerns, yet ongoing negotiations with Mexico and Canada remain unresolved, leaving markets vulnerable to renewed volatility.

## Policy Rate expectations for Jamaica

On May 20, the Bank of Jamaica (BOJ) initiated its first rate cut of the year, reducing the policy rate by 25 basis points to 5.75%. This move signals the start of what many expect to be a broader easing cycle, aligning with anticipated shifts in U.S. monetary policy. With inflation well-contained—headline inflation at 2.1% in September and core inflation at 4.2% in August—the BOJ has had room to maneuver. However, the

recent passage of Hurricane Melissa has dramatically altered previous forecasts.

Under one scenario, inflation could breach the upper end of the BOJ's target range by February 2026 and peak near 10.2% in July 2026. Based on projected CPI trends over the next nine months, we see a low probability of further policy rate reductions until economic conditions stabilise. In the medium to long term, however, we expect Jamaican and U.S. interest rate policies to realign with historical norms—supporting a gradual decline in rates over time.

## Characteristics of bond recommendations

With interest rates expected to remain stable in the short term but trend downward over the medium to long term, now presents a valuable opportunity to lock in current yields and enhance portfolio income. However, agility remains essential. A weighted average maturity of 3 to 5 years offers a prudent balance—capturing attractive yields while preserving flexibility and managing risk effectively.

**We also continue to highlight the importance of diversification across asset classes, sectors, and geographies.** A well-diversified portfolio is the cornerstone of resilience, equipping investors to navigate market fluctuations and absorb unexpected shocks with greater confidence.

# Stock Market Outlook

## Near-Term Outlook

As we evaluate the near-term equity market landscape, our outlook remains cautious. The adverse impact of Hurricane Melissa on listed companies' revenues and earnings is axiomatic, particularly across sectors tied to tourism, discretionary spending, and agriculture. These industries are expected to bear the brunt of the disruption, with earnings volatility likely persisting in the short term.

## Medium to Long-Term Outlook

Looking ahead, the lingering effects of Hurricane Melissa are poised to weigh on corporate performance, dampening investor risk appetite.

This subdued sentiment may be further compounded by a downgrade in Jamaica's near-term economic growth outlook. Additionally, inflationary pressures suggest that interest rate easing is unlikely, removing a potential counterbalance to current headwinds.

With the full economic cost of Hurricane Melissa still under assessment, forecasting remains challenging. In the interim, we maintain a strategic focus on companies within the consumer staples and construction materials sectors—particularly those offering high dividend yields, consistent dividend growth, low debt levels, and resilient earnings performance, while trading at relatively attractive valuations



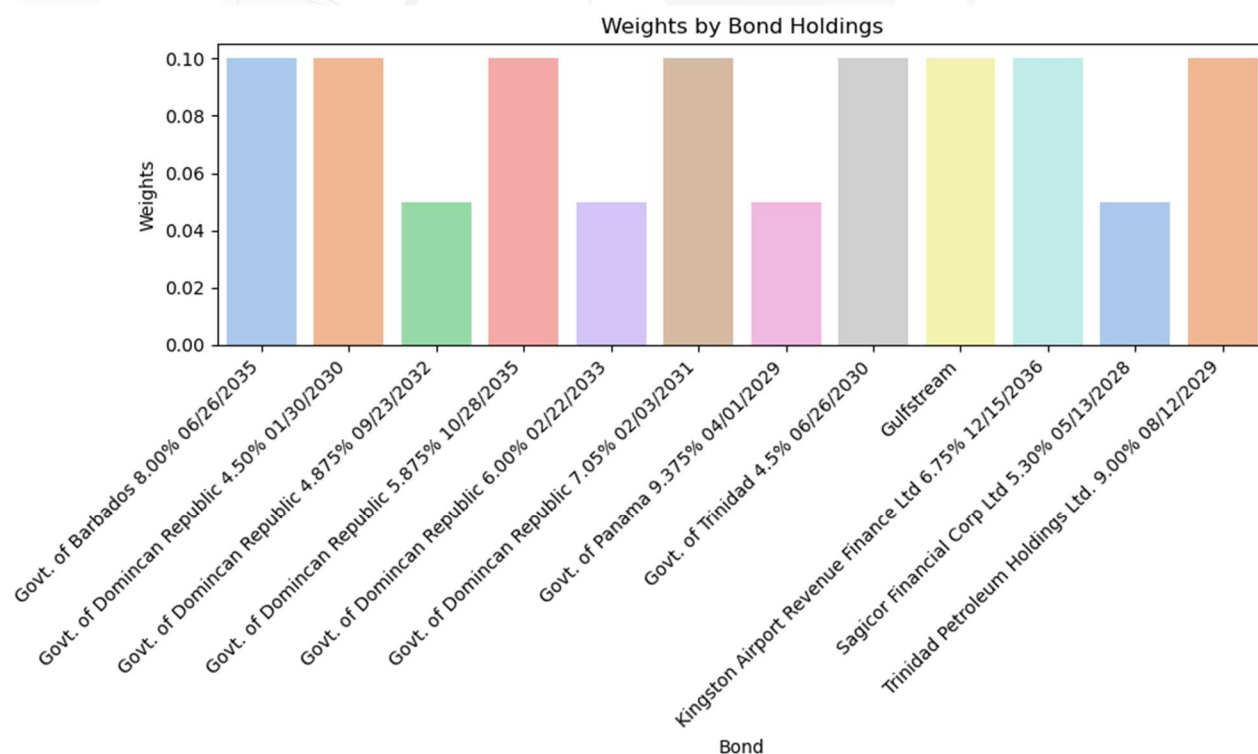


# Hypothetical Portfolio

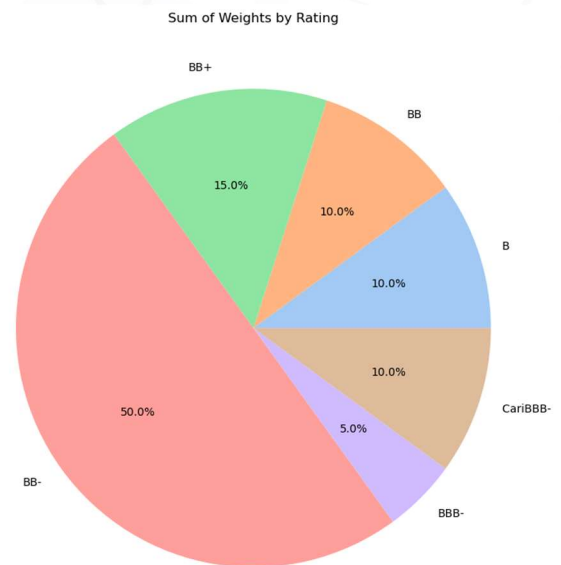
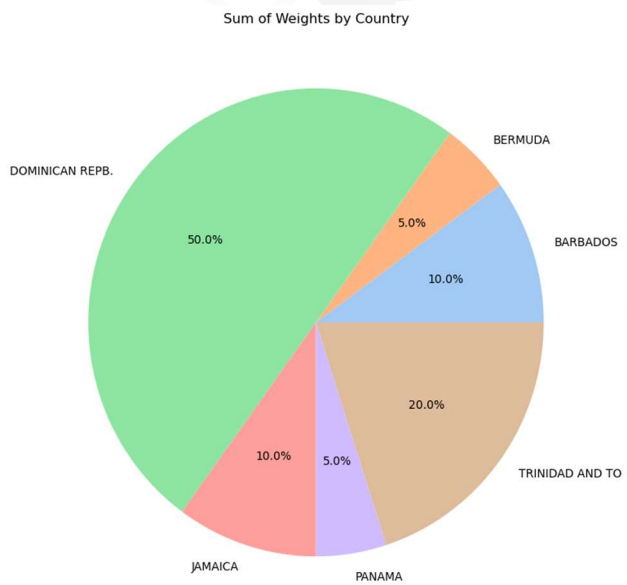
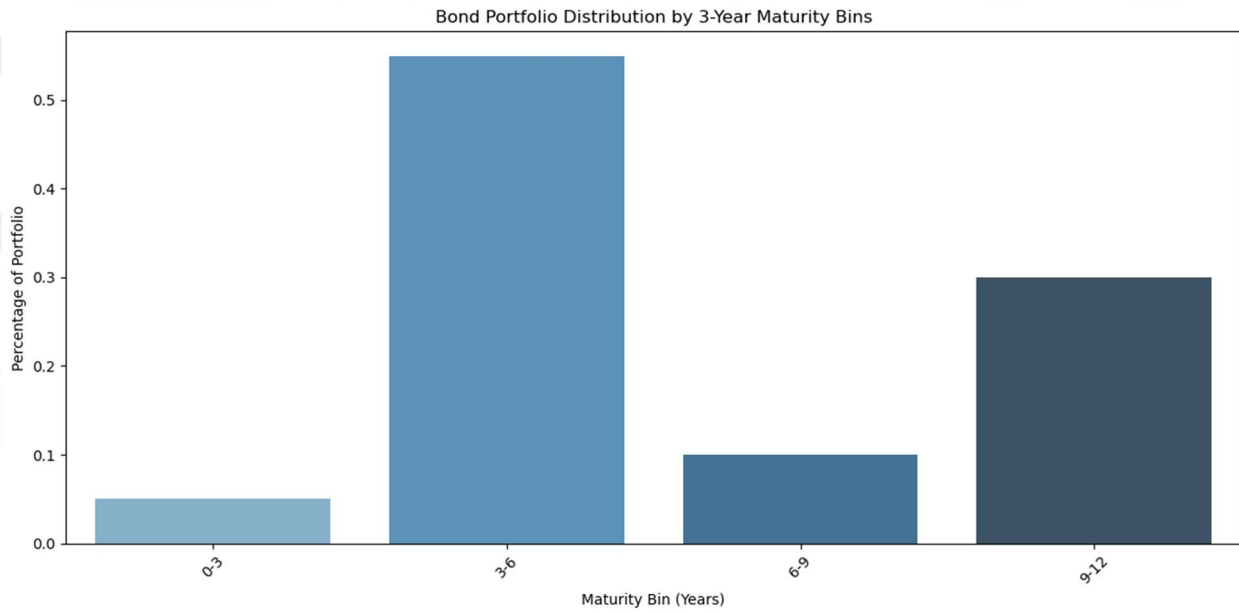
In this edition, we showcase a **hypothetical portfolio** designed using current market prices to meet a specific client objective. It's important to note that this example is **not a general recommendation**, but rather an illustration to help investors appreciate how expected returns align with varying levels of risk tolerance.

This sample portfolio includes a **35% allocation to corporate bonds**, some of which are quasi-sovereign. For investors comfortable with higher exposure to corporate notes, increasing this allocation could potentially enhance returns—assuming all other factors remain constant.

Conversely, for those with lower risk tolerance, eliminating corporate notes altogether may be the preferred approach. However, this adjustment typically results in a **lower overall portfolio yield**, highlighting the trade-off between risk and return.



<b>Portfolio Clean Price</b>	1,033,525.00
<b>Portfolio Face Value (\$)</b>	1,000,000.00
<b>Est. Coupon Per Annum (\$)</b>	68,450.00
<b>Portfolio Yield to Maturity</b>	5.78%
<b>Portfolio Weighted Avg. Life (in yrs)</b>	6.29





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