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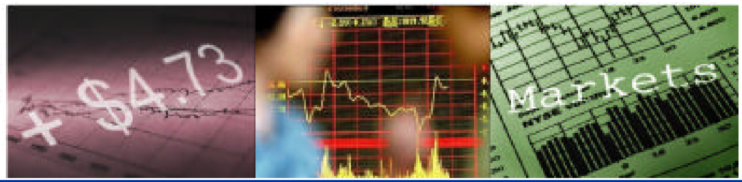
Stock Market Weekly



Cherelyn Elbourne, Research Analyst cherelyn.elbourne@mycmmb.com

Growth at a Slower Pace for U.S Stock Market

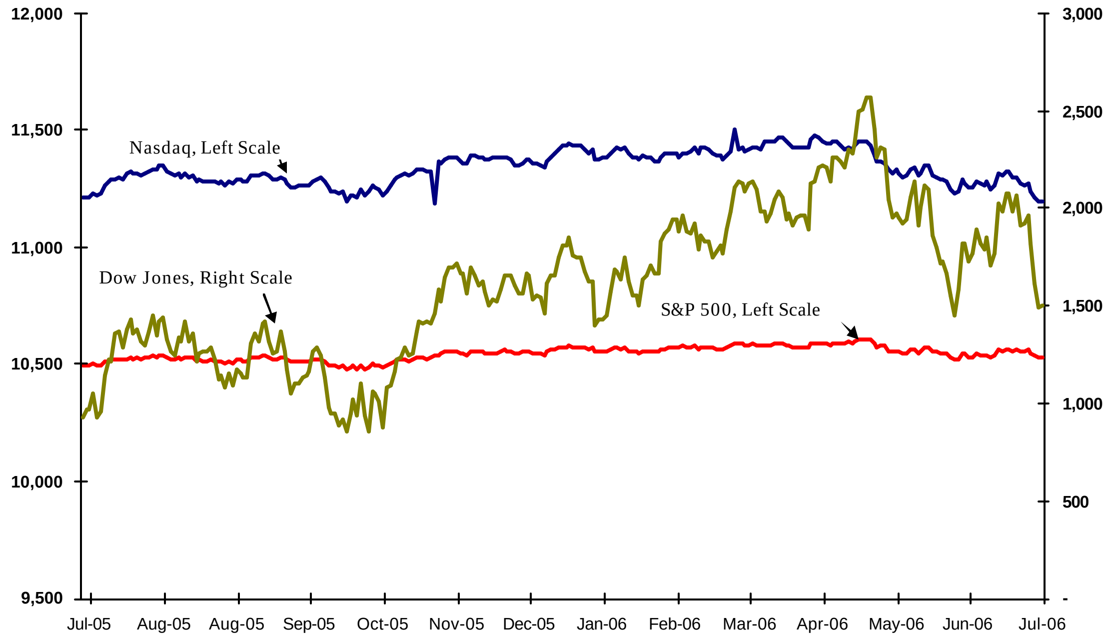
While regional equity markets continue to search for optimism, both individual and institutional local investors continued to seek more substantial extra-regional returns. More specifically, international mutual funds and the U.S equity Market recorded enviable but seemingly unsustainable performances in late 2005. Signs of pending trouble were evident as high stock valuations heightened investors intolerance for negative developments. While the three main U.S. Indices, the Dow Jones, S&P 500 and the Nasdaq enjoyed healthy overall retu rns in the last quarter of 2005 the trend tapered off in the second quarter of 2006 with all but the Dow Jones recording positive growth. This reversal was attributed to the following factors:

- Sell off in May in global equity markets due to the concerns of interest rate hikes by the US Federal Reserve
- Escalating oil prices, which have already recorded a high of US$78 per barrel for the year
- Unsustainable corporate profit growth considering that the U.S market is slowing to more moderate growth

In a more global context, the MSCI World Index which tracks the G3 economies (U.S.A, Germany and Japan) ended the first quarter of 2006 in positive territory boasting a return of 6.8% when compared to an overall 11% return in 2005. The MSCI Index, however, endured some pummelling in May- June, reaching a seven month low of 1, 2343.94 points and a quarterly loss of 1.7%; rounding off half year returns to 4.9%.

In the United States, economic growth slowed in the second quarter to an estimated 3.1% compared to 5.6% in the prior quarter as higher fuel prices contained consumer spending and the housing market began to cool. In the run up to June, stocks retreated on speculation that the Federal Reserve would further raise interest rates. At the end of June, as was universally predicted rates were raised another 25 basis points to 5.25%. By the end of June 2006, the S&P 500 was down 2.1% after falling 2.7% in May alone. The Nasdaq fell 7.1% while the Dow Jones advanced 0.5%. Overall, all equity indices were up on a one year comparison.

Comparative One year Performance of US Indices



Source, CMMB Research Centre, Bloomberg

The main drivers of the U.S equity market are Energy and Manufacturing stocks, which according to S&P recorded one year returns of 22.8% and 18%, respectively. The energy sector is expected to help buoy the S&P 500. The Manufacturing sector has exceeded levels reached at the peak of the economic boom in the 1990's but fierce foreign competition, rising interest rate levels and growing energy costs could challenge sustainable profit growth in this area. Profitability in this segment is expected to continue to grow, albeit at a slower pace.

To further fuel the flames in the equity market, U.S stocks took a further pounding by mid-July as violence in the Middle East continued to drive oil prices to record highs, pushing investors to revert to less risky undertakings. As a result, small to mid cap stocks may be more lacklustre. Historically large cap equities have outrun the market when the earnings yield (a financial indicator which reveals the earnings gained for every dollar worth of stock) gap has been broad. The earnings yield is currently at 4.2%, better than the real yield on 10-Year Treasury Bonds of 2.6%.

On the whole, we maintain a moderate US equity outlook for the third quarter as corporate earnings are expected to weigh under the pressures of rising interest rates and higher energy prices, especially given the rapidly escalating violence in the Middle East. The U.S Markets are expected to be in line with the general World Index trend. Possible risks to this outlook are more aggressive advances in the Middle East and a sticky upward interest rate environment.

Regional Market Review

Locally, Guardian Holdings is seeking to secure a loan of TT$50 million to fund new projects including expansion of its life insurance business into the Central America and the Caribbean markets as well as its asset management business. The stock is currently trading at TT$21.95 and was down 0.2% for the review period. The TTSE Composite grew marginally but was overshadowed by the ALL Trinidad Index which advanced by 0.3%. Approximately 3.9 million shares were traded of which JMMB accounted for 63%. NFM, JMMB and NCBJ were the top advances while DB&G, Publishing and RBTT weighed on the market.

Volumes remained relatively low in Jamaica but all three Indices rallied at the close of trade on 17 July 2006. Compared to the previous review period there was a substantial improvement in the advance/decline ratio which stood at 18 to 10. The All Jamaica Index advanced the most (4.8%) followed by the JSE Select (4.7%) while the JSE Composite trailed the performance of its resident peers with marginal growth of 2.2%. Companies like Life of Jamaica, Jamaica Broilers and Lascelles enjoyed more significant returns as all three stocks appreciated by more than 11%. NCBJ will convene to consider a dividend payment on 27 July; the Group earlier declared its intent to pay quarterly dividends and has already disbursed a J$0.13 in February. Comparatively, BNS paid a more favourable dividend of J$0.25 in March. Meanwhile NCBCML, a subsidiary of NCBJ intends to offer 100 million preference shares to the market at an agreed rate of 11.75% per annum. Trading is expected to commence on 25 July and close around 28 July.

The BSE Composite contracted by 0.2% to close at 984.87 points by 17 July. A frugal 40,000 shares traded for the period led by Banks and Sagicor. Trading in this market seems stagnant as 23 of the 25 listed stocks remained unchanged. Barbados Light and Power (BL&P) announced a 5 to 1 rights issue should soon revive activity levels on the market. Management expects to raise B$28 million from the issue of 2.9 million shares at B$10 to fund its subsidiary's LPH Telecom's 25% new domestic telecommunications investment as well as 45% in a real estate joint venture for LPH Real Estate's.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	914.36	0.05	-1.69	-14.29	-20.82
All Trinidad	1,157.14	0.26	-1.38	-12.51	-19.87
JSE Index	82,188.96	2.21	-6.25	-20.78	-23.79
All Jamaica	78,460.30	4.80	-3.33	-24.09	-28.83
JSE Select	2,176.58	4.74	-2.79	-23.56	-25.61
BSE Composite	984.87	-0.21	1.32	-4.84	-4.43

Current Happenings

- Moody upgrades T&T...concerned about spending

- Privitisation expected for BWIA
- BL&PH issue may boost BSE
- Unexpected shocks cause more damage to Barbados' financial sector
- Food pushes June inflation in Jamaica to 1.3%

Table:1 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1234.49	-1.92	-0.46	-2.70	1.09
Nasdaq Composite	2037.72	-2.51	-3.44	-9.18	-5.00
Dow Jones Industrial	10747.36	-2.41	-1.78	-0.92	1.63
German Dax	5416.96	-3.92	-0.41	-0.80	14.78
FTSE 100	5701.00	-2.72	1.33	0.34	9.33
Nikkei 225	14437.24	-5.33	-2.85	-10.39	22.78

International Market Review

All International Equity benchmarks retreated the past week on concern that higher oil prices may slow economic growth as unrest in the Middle East continued. The Nasdaq had the largest loss of 2.5% while the Dow Jones and S&P 500 slid by 2.4% and 1.9% each. Crude oil hit a new high of US$78 on 14 July and was also driven by disruptions in Nigeria which threatened supplies on a global scale. In Europe, the German Dax took the biggest tumble (-3.9%) While Asian equities fell the most in a month as the market was weighed by an interest rate increase by the Central bank for the first time in six years. The Asian benchmarks, Nikkei and Hang Seng fell 5.3% and 2.8%, respectively.