

US Core PCE inflation of 0.1% MoM is getting closer to Fed's 2% target

US stocks climbed for the eight consecutive week, propelling DJIA and Nasdaq stock indexes to all-time highs while the S&P500 is finishing just 0.9% below its record high on 3 January 2022. Developed Market equities, on average, rose by 0.84% this week for 21.12% year-to-date gains, well outperforming Emerging Market stocks, which gained only 3.75% (in US\$ term) so far in 2023. The bullish sentiment was driven by cooler than expected US inflation, which continues its disinflation trend and is getting closer to Fed's 2% target (expected in 2026). Core PCE Price Index, which is the Fed's preferred inflation metric, increased by 0.1% MoM in November (annual: 0.2%) or unchanged from a downwardly revised October data, while annual inflation was also slowing to 3.2% from 3.5% in October. The headline PCE fell 0.1% MoM, the first decrease in consumer prices since February 2022. Meanwhile, US durable goods orders grew by 5.4% MoM in November, reversing the prior month's drop (-5.1%) and above market expectations of 2.2%, thus pointing to a resilient US economy. A Fed official's view cautioning over slowing the economy too quickly also boosted sentiment as Fed seems on track to achieve its low inflation low unemployment mandate. While Fed has signalled 75bps rate cuts for 2024, which will keep its monetary stance still restrictive, market expectations have grown more optimistic as the probabilities for a first rate cut in March rose to 77% while the probabilities for 100bps in rate cuts by end of 2024 has increased to 82%, from 60% in the prior week, according to the CME FedWatch Tool. The trend of declining US inflation and resilient economy led to a steepening of the US yield curve as 2-yr yield dropped 12bps to 4.33% while 10-yr yield eased 1bps to 3.90% this week.

In Indonesia, JCI was up by 0.65% this week on the back of a stronger equity inflows of Rp1.74Tn while the domestic bond market continued to benefit from much larger foreign inflows (Rp7.47Tn), which lowered 10-yr IDR yield to 6.50% (-14bps). Most equity sectors gained, led by basic materials and consumer cyclicals while technology, consumer staples and financials sectors corrected.

The Week Ahead – A relatively light week for economic data releases

The key economic data to focus next week include US House Price Index (Tue 21:00), US Initial Jobless Claims (Thu 20:30), Pending Home Sales (Thu 22:00), and China NBS Manufacturing and Non Manufacturing PMIs (Sun 08:30).

Investment Conclusion

Fed's aggressive rate hikes has been a key risk for global markets since 2022 and investor concerns have shifted from inflation to growth to inflation again amid surprisingly resilient US economy. However, with the Fed Fund's rate close to peaking and a Fed pivot to easing expected in early 2024, we see positive catalysts for JCI to achieve our 7,400 target given Indonesia's stable economy, financial markets and currency expectations, as reflected in the halving of IDR currency risk premiums (vs. USD). Indonesia's equity market has lagged global markets in 2023, partly because it remained stable and outperformed in 2022 when the developed equity markets corrected due to Fed's aggressive rate hikes and its impact on economic growth. Our JCI target of 7,400 is based on our P/E target of 13x, in line with the long-term average P/E valuation.

Recommendation

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45, XIIT (IDX30), XIPI (Pefindo i-Grade), and ESG ETF XISR (Sri Kehati). However, performances of RLQ45 and XIIT during 2022 have been dragged by their exposures to major technology stocks. Meanwhile, our semi-broad funds XIPI and XISR have been our preferred ETF picks since 2022, due to their overweight of banking sector, and more importantly, these two ETFs have no exposure to technology stocks, which we view as posing considerable risk to fund performances at time of rising interest rates globally. Our two other top ETF picks are XIHD (High Dividend), for its focus on high yielding stocks, and XIIML (MSCI Indonesia Large Cap), for its constituent of mainly blue-chip stocks.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	37,385.97	0.22%	12.79%
S&P 500	4,754.63	0.75%	23.83%
Nasdaq	14,992.97	1.21%	43.25%
FTSE 100	7,697.51	1.60%	3.30%
DAX	16,706.18	-0.27%	19.98%
Nikkei 225	33,169.05	0.60%	27.11%
Hang Seng	16,340.41	-2.69%	-17.40%
Shanghai	2,914.78	-0.94%	-5.65%
MSCI World	3,152.26	0.84%	21.12%
MSCI Emerging Markets	992.28	-0.86%	3.75%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	698.46	0.57%	-1.80%
Consumer Cyclicals	808.25	1.56%	-5.01%
Transportation	1,600.34	0.92%	-3.71%
Industrials	1,082.52	0.07%	-7.82%
Technology	4,364.93	-1.75%	-15.44%
Infrastructures	1,576.09	0.29%	81.44%
Financials	1,443.33	-0.42%	2.01%
Consumer Non-Cyclicals	710.87	-1.30%	-0.79%
Healthcare	1,361.11	1.04%	-13.03%
JCI	7,237.52	0.65%	5.65%
Energy	2,097.44	0.36%	-7.99%
Basic Materials	1,330.44	3.55%	9.40%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.33	-12 bps	-10 bps
UST 10Y Yield	3.90	-1 bps	3 bps
Ind GB 10Y Yield	6.50	-14 bps	-44 bps
USDIDR	15,466.85	-62.00	-101.15
CDS Indo 5Y	70.22	0.46	-26.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.74Tn	+5.30Tn
Government Bond Market (Rp)	+7.47Tn	+81.40Tn

Commodities	Last	1W	YTD
WTI	73.50	2.90%	-8.42%
Brent	78.85	2.69%	-8.22%
CPO (Malaysia)	3,738.00	1.25%	-3.39%
Coal (New Castle)	145.25	-0.17%	-64.06%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45*	LQ45	1,148.73	1.04%	7.86%
XIIT*	IDX30	586.23	0.24%	5.45%
XIJI	JII	611.24	1.66%	-5.63%
XISI	SMinfra18	367.81	0.56%	6.50%
XISR	SriKehati	477.99	0.50%	8.06%
XIHD	IDXHIDIV20	657.80	0.84%	8.74%
XIPI	Pefindo I-Grade	241.86	1.78%	16.89%
XIIML	MSCI Indo Large Cap	299.87	0.88%	7.70%
XIID	IDX30	536.78	0.17%	3.62%
XIFE	FTSE ESG Indonesia	117.56	0.73%	3.57%
XIIC	Consumer Related	1,011.80	0.84%	1.72%
XIIF*	Rate Sensitive	530.14	0.15%	3.14%
XISC*	BUMN Stocks	759.83	0.33%	0.96%
XISB	Sovereign Bonds	497.39	0.18%	7.79%

* Total Return

Conventional				
RDMP	Equity	883.40	0.63%	2.79%
RPCF	Balanced	2,636.62	0.56%	4.00%
RDPCDA	Balanced	985.01	0.34%	N/A
RDPCDB	Balanced	978.88	0.30%	N/A
RDPO 2	Fixed Income	1,090.67	0.10%	4.06%
RDPU 2	Money Market	1,443.13	0.09%	4.19%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2023F	2023F	
1 RLQ45	22.4	53.2	15.1	8.3	1.00	15.2	3.9	1.14
2 XIIT	22.9	57.1	9.8	9.7	0.53	13.8	4.3	1.07
3 XISC	23.2	44.4	6.3	13.0	13.02	12.6	5.3	1.33
4 XISR	31.6	58.3	5.7	3.8	0.50	13.4	4.7	1.11
5 XIIF	20.4	58.2	10.7	7.9	2.82	13.3	4.8	1.29
6 XISI	44.0	28.1	15.1	12.4	0.38	11.9	5.5	1.04
7 XIPI	17.4	65.2	13.8	3.4	0.23	17.7	3.6	1.18
8 XIIC	28.5	36.7	22.4	3.4	9.05	14.8	4.0	1.18
9 XIHD	22.1	62.0	2.7	12.8	0.41	11.7	5.2	1.12
10 XIJI	40.9	14.0	24.4	19.8	0.91	13.3	3.7	1.10
11 XIML	15.0	79.9	0.0	2.0	3.09	13.4	4.8	1.11
12 XIID	23.0	57.3	9.8	9.7	0.17	15.2	4.5	1.07
13 XIFE	24.0	63.4	7.5	4.8	0.30	13.5	4.4	1.14
Index								
IDX80	32.9	41.1	15.0	11.0		12.8	4.9	
JCI	25.2	37.1	15.2	13.0		13.8	4.1	

Remarks:

*Red: Overweight to IDX80; Black: Neutral to IDX80; Green: Underweight to IDX80

Characteristic Classification :

*Defensive : Consumer Goods, Media, Telecommunication, and Infrastructure

*Rate Sensitive : Banks and Auto

*Dom. Cyclical : Cement, Property, Construction, Animal Feeds, and Retail Trade

*Commodities : Coal Mining, Metals & Oil Mining, Plantation and Misc. Industries

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