

**US October PCE inflation cooling, following earlier slowing of CPI prices**

Global stocks rebound rally continued for a fifth consecutive week. The S&P500 index has risen by 11.6% since its recent low on 27<sup>th</sup> October and has recovered back to just 4% below its all time high achieved at the end of 2021, before the Fed started hiking rate. US bond market has also rallied during the same period as 10-yr US Treasury yield eased to 4.21%, from a 16-year high of 5% recorded on 19<sup>th</sup> October. The recovery in stock and bond prices is driven by good news on inflation as US core PCE price index, the Fed's preferred inflation measure, slowed to 0.2% MoM (3.5% YoY) in October, from 0.3% and 3.7%, respectively, in the prior month. While this is still well above the Fed's 2% long-term target, it is better than Fed's projection of 3.7% for Q4 2023 and it is the second good news on October inflation, after similar cooling down of CPI prices released two weeks earlier. Fed officials recognition of the inflation progress also contributed to a positive market sentiment. Meanwhile, the 2<sup>nd</sup> estimate of US third-quarter GDP growth was upgraded to show an even stronger annual growth of 5.2% (vs. 4.9% initial estimate). However, growth is expected to cool down in the last quarter as indicated by the slowdown in US personal spending to 0.2% MoM in October (September: 0.7%), which was the slowest growth in five months. The progress in lowering inflation has raised market expectations that a Fed pivot could begin earlier than previously expected in mid-2024. The probability for a rate cut to begin in March 2024, as implied by Fed Funds futures pricing data, has increased to 55%, according to CME FedWatch Tool. Next week, market's attention will likely focus on US jobs growth to see if the slowdown to 150,000 jobs in October will be sustained in November.

In Indonesia, JCI was up by 0.72% this week amid marginal equity inflows while the bond market reported larger inflows of Rp9.2Tn. Infrastructure and energy sectors led the gainers, while technology and consumer sectors corrected.

**The Week Ahead – China Services PMI & Trade Balance, US Jobs Reports**

The key economic data to focus next week are US Factory Orders (Mon 22:00), China Caixin Services PMI (Tue 20:45), US ISM Services PMI (Tue 22:00), China Trade Balance (Thu 10:00), US Initial Jobless Claims (Thu 20:30), Indonesia Retail Sales & Consumer Confidence (Fri 10:00), US Nonfarm Payrolls, Unemployment Rate (Fri 20:30), US Michigan Consumer Sentiment (Fri 22:00).

**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 XIIM (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	36,245.50	2.42%	9.35%
S&P 500	4,594.63	0.77%	19.67%
Nasdaq	14,305.03	0.38%	36.67%
FTSE 100	7,529.35	0.55%	1.04%
DAX	16,397.52	2.30%	17.77%
Nikkei 225	33,431.51	-0.58%	28.12%
Hang Seng	16,830.30	-4.15%	-14.92%
Shanghai	3,031.64	-0.31%	-1.87%
MSCI World	3,040.70	0.85%	16.83%
MSCI Emerging Markets	982.14	0.18%	2.69%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	712.17	-0.08%	0.13%
Consumer Cyclical	819.83	-1.02%	-3.65%
Transportation	1,689.51	0.00%	1.66%
Industrials	1,091.15	-0.20%	-7.08%
Technology	4,746.72	-2.98%	-8.05%
Infrastructures	1,504.73	6.02%	73.23%
Financials	1,435.96	0.03%	1.49%
Consumer Non-Cyclicals	727.16	-0.72%	1.48%
Healthcare	1,350.89	0.55%	-13.68%
JCI	7,059.91	0.72%	3.06%
Energy	2,008.67	1.94%	-11.88%
Basic Materials	1,183.07	0.43%	-2.72%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.55	-40 bps	13 bps
UST 10Y Yield	4.21	-26 bps	33 bps
Ind GB 10Y Yield	6.60	-7 bps	-34 bps
USDIDR	15,412.65	-119.95	-155.35
CDS Indo 5Y	75.93	1.20	-21.03

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.54Tn	+2.84Tn
Government Bond Market (Rp)	+9.20Tn	+71.69Tn

Commodities	Last	1W	YTD
WTI	74.52	-0.85%	-7.15%
Brent	79.24	-1.30%	-7.76%
CPO (Malaysia)	3,874.00	-0.41%	0.13%
Coal (New Castle)	132.15	8.19%	-67.30%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,063.74	1.45%	4.44%
XIIT	IDX30	553.44	1.67%	4.22%
XIJI	JII	597.70	2.59%	-7.72%
XISI	SMinfra18	363.64	0.90%	5.29%
XISR	SriKehati	470.52	0.62%	6.37%
XIHD	IDXHIDIV20	646.59	0.69%	6.88%
XIPI	Pefindo I-Grade	226.17	1.41%	9.30%
XIIM	MSCI Indo Large Cap	291.01	0.44%	4.52%
XIID	IDX30	531.51	1.64%	2.60%
XIFE	FTSE ESG Indonesia	115.46	1.48%	1.73%
XIIC	Consumer Related	1,005.49	0.43%	1.08%
XIIF	Rate Sensitive	524.44	1.09%	2.03%
XISC	BUMN Stocks	717.66	1.30%	0.52%
XISB	Sovereign Bonds	491.54	0.44%	6.52%

Conventional				
RDMP	Equity	885.48	1.14%	3.03%
RPCF	Balanced	2,614.04	0.43%	3.11%
RDPCDA	Balanced	973.57	0.42%	N/A
RDPCDB	Balanced	968.49	0.39%	N/A
RDPO 2	Fixed Income	1,087.34	0.10%	3.74%
RDPU 2	Money Market	1,439.42	0.08%	3.93%

**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	23.3	53.2	12.6	10.5	0.46	14.6	4.0	1.14
2 XIIT	22.8	55.7	9.4	11.8	0.24	13.9	4.2	1.07
3 XISC	23.2	42.6	7.1	15.8	11.32	12.1	5.3	1.33
4 XISR	25.9	62.8	4.4	6.6	0.32	13.4	4.6	1.11
5 XIIF	23.0	56.5	9.5	7.6	3.38	13.3	4.7	1.29
6 XISI	43.2	25.4	16.2	14.9	0.33	11.8	5.3	1.04
7 XIPI	18.3	65.3	10.9	4.5	0.98	16.3	3.9	1.18
8 XIIC	32.0	36.4	21.0	1.6	8.99	15.0	4.0	1.18
9 XIHD	20.4	61.1	2.6	15.5	0.37	11.6	5.0	1.12
10 XIJI	35.1	15.7	21.8	27.2	0.33	12.2	3.9	1.10
11 XIML	18.3	78.8	0.0	2.5	0.37	13.5	4.7	1.11
12 XIID	22.9	55.8	9.4	11.8	0.13	15.5	4.3	1.07
13 XIFE	24.1	60.0	7.4	7.9	0.60	13.9	4.3	1.14
<b>Index</b>								
IDX80	32.4	41.4	13.7	12.5		12.8	4.6	
JCI	27.8	38.0	14.8	15.6		12.8	4.6	

**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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