

Fed signals 75bps rate cuts in 2024 amid benign inflation in past 2 months

US stocks climbed for the seventh consecutive week, with S&P500 Index rising to its 52-week high amid benign US inflation and dovish signals from Fed's final policy meeting of the year. DM equities have gained 20.11% so far in 2023, well outperforming EM stocks (+4.65%), which were impacted by portfolio outflows from August to October when 10-yr US bond yields climb to as high as 5%. US consumer price inflation rate of 3.1% in November (core inflation of 4%) came in line with expectations while producer price inflation of 0.9% (core PPI: 2%) was lower than expected as inflation declined to its lowest level since January 2021. Benign inflation seems a key contributing factor to the Fed's decision to keep rate unchanged, although this was widely expected. The FOMC members' median Fed funds rate projection of 4.50-4.75% in 2024 implies 75bps rate cuts next year. Markets optimism about the path of interest rate is also reflected in rising probabilities for the Fed's first rate cut to begin in March 2024 to 63%, according to CME FedWatch Tool, while 10-yr US Treasury yield has declined to 3.92% (-31bps) this week. The Fed also lowered its median projection for core PCE inflation rate to 2.4% for Q4 2024 (2023: 3.2%), from 2.6% in September. Meanwhile, US retail sales growth data was unexpectedly strong at 0.3% MoM in November (October: -0.2%) although this is not enough to change market's disinflation narrative. Next week, market's attention will likely be on the release of core PCE Price Index for November, a broader inflation metric preferred by the Fed, which has slowed to 0.2% MoM in October and is expected to remain at this pace in November. The Fed's inflation projection of 2.4% for Q4 2024 implies a stable core PCE inflation of 0.2% MoM throughout next year.

In Indonesia, JCI was up by 0.44% this week, which was only a modest gain in comparison to its global peers as foreign equity inflows are yet to return to the country after experiencing large outflows from August to November. Except for banking, energy and property stocks, most other sectors saw corrections.

The Week Ahead – Indonesia Interest Rate Decision, US PCE Price Index

The key economic data to focus next week are US CB Consumer Confidence, US Existing Home Sales (Wed 22:00), Indonesia Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 20:30), US Durable Goods Orders, US Personal Income and Spending, US PCE Price Index (Fri 20:30).

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	37,305.16	2.92%	12.54%
S&P 500	4,719.35	2.50%	22.92%
Nasdaq	14,813.92	2.85%	41.54%
FTSE 100	7,576.36	0.29%	1.67%
DAX	16,751.44	-0.05%	20.31%
Nikkei 225	32,970.55	2.05%	26.35%
Hang Seng	16,792.19	2.80%	-15.11%
Shanghai	2,942.56	-0.91%	-4.75%
MSCI World	3,126.14	2.59%	20.11%
MSCI Emerging Markets	1,000.89	2.65%	4.65%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	694.49	0.19%	-2.36%
Consumer Cyclical	795.86	-0.83%	-6.47%
Transportation	1,585.77	-3.54%	-4.58%
Industrials	1,081.72	-0.46%	-7.89%
Technology	4,442.62	-4.64%	-13.94%
Infrastructures	1,571.60	-3.78%	80.93%
Financials	1,449.41	3.35%	2.44%
Consumer Non-Cyclicals	720.22	-0.54%	0.51%
Healthcare	1,347.04	-1.42%	-13.93%
JCI	7,190.99	0.44%	4.97%
Energy	2,089.85	2.48%	-8.32%
Basic Materials	1,284.77	-1.88%	5.64%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.45	-27 bps	2 bps
UST 10Y Yield	3.92	-31 bps	4 bps
Ind GB 10Y Yield	6.64	5 bps	-30 bps
USDIDR	15,528.85	-44.15	-39.15
CDS Indo 5Y	69.76	-5.99	-27.20

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.05Tn	+2.01Tn
Government Bond Market (Rp)	-0.21Tn	+73.93Tn

Commodities	Last	1W	YTD
WTI	71.43	0.26%	-11.00%
Brent	76.78	1.37%	-10.63%
CPO (Malaysia)	3,692.00	-1.28%	-4.57%
Coal (New Castle)	145.50	-2.18%	-64.00%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45*	LQ45	1,136.90	0.92%	6.75%
XIIT*	IDX30	584.81	0.82%	5.19%
XIJI	JII	601.24	-1.99%	-7.17%
XISI	SMinfra18	365.76	1.44%	5.90%
XISR	SriKehati	475.61	1.84%	7.52%
XIHD	IDXHIDIV20	652.34	1.66%	7.84%
XIPI	Pefindo I-Grade	237.64	2.52%	14.85%
XIIML	MSCI Indo Large Cap	297.25	2.80%	6.76%
XIID	IDX30	535.86	0.78%	3.44%
XIFE	FTSE ESG Indonesia	116.70	1.34%	2.82%
XIIC	Consumer Related	1,003.39	0.46%	0.87%
XIIF*	Rate Sensitive	529.34	1.74%	2.98%
XISC*	BUMN Stocks	757.31	1.03%	0.62%
XISB	Sovereign Bonds	496.51	0.50%	7.60%

* Total Return

Conventional				
RDMP	Equity	877.87	0.34%	2.15%
RPCF	Balanced	2,621.90	1.23%	3.42%
RDPCDA	Balanced	981.70	1.11%	N/A
RDPCDB	Balanced	975.92	1.08%	N/A
RDPO 2	Fixed Income	1,089.56	0.10%	3.95%
RDPU 2	Money Market	1,441.88	0.09%	4.10%

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	23.0	53.3	14.7	8.0	1.02	14.9	4.0	1.14
2 XIIT	23.5	56.7	10.1	9.2	0.54	13.8	4.3	1.07
3 XISC	23.1	44.4	6.4	12.9	13.18	12.5	5.4	1.33
4 XISR	32.0	58.0	5.7	3.8	0.53	13.2	4.7	1.11
5 XIIF	20.5	58.3	11.2	7.5	2.58	13.2	4.8	1.29
6 XISI	44.5	27.8	15.1	12.1	0.41	11.8	5.5	1.04
7 XIPI	17.7	65.5	13.4	3.1	0.26	17.2	3.7	1.18
8 XIIC	28.7	37.1	22.7	3.2	8.32	14.6	4.1	1.18
9 XIHD	22.4	62.0	2.7	12.5	0.45	11.5	5.2	1.12
10 XIJI	42.2	14.4	23.0	19.3	1.05	12.9	3.8	1.10
11 XIIML	15.2	79.8	0.0	1.9	3.13	13.3	4.8	1.11
12 XIID	23.5	57.0	10.1	9.2	0.13	15.1	4.5	1.07
13 XIFE	24.5	63.1	7.7	4.4	0.34	13.5	4.4	1.14
Index								
IDX80	33.4	41.1	15.0	10.6		12.6	4.9	
JCI	25.6	37.1	15.0	12.9		13.7	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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