

2023 in review: Markets end year with optimism after a depressed outlook

Global stock markets end 2023 strongly, led by developed markets (DM) stocks which rebounded with 22% gains, while emerging markets (EM) equities lagged with 7% rise, after steep falls of both markets in 2022. This year's stock markets recovery was initially halted by sticky inflation, which had led to an upward shift in US long term rate expectations amid the Fed's 'higher-for-longer' narrative. However, as US inflation has cooled in the last two months and is now on track to achieve the Fed's 2% target, 10-yr US bond yields have reversed its uptrend after peaking at 5% in October. In turn, market optimism of more significant Fed rate cuts in 2024, coupled with expectations that US economy is poised for a soft landing, bolstered the global stock markets rebound, which entered their ninth positive week in a row with S&P500 closing the year at just 0.6% below the index's all time high recorded on January 3, 2022. Meanwhile, performances of EM equities (in US\$ term) have lagged DM stocks since early 2023, due to stronger US Dollar, and this performance gap widened during the year amid major fund outflows from EM debts and equities, triggered by the three month period of upshift in US long term yields. EM equity outflows totalled US\$50bn during August-October 2023, big reversals from fund inflows of US\$74bn in the January to July period, according to data from Institute of International Finance (IIF). However, equity inflows of US\$15bn started returning to EM in November, according to IIF, a trend reversal which we expect to be sustained in the coming months given Fed's signal for a pivot during its last policy meeting in December and market expectations for rate cuts of at least 100bps in 2024. We believe a trend reversal in global rates is one of key catalysts for a better performance of EM equities in 2024, after well underperforming DM stock markets in 2023.

We remain bullish on Indonesian equities in 2024, although JCI fell short of our 7,400 target in 2023, as a modest earnings growth of 4-5% is forecast to return in next 2 years and the country's economy, financial markets and currency have proved resilience in the face of global markets turbulence. Equity inflows have started returning, with Rp4.42Tn recorded in the last two weeks of December, while the Rupiah has recovered and gained against the US Dollar in 2023.

The Week Ahead – Indonesia Inflation, FOMC Minutes, US Jobs Reports

The key economic data to focus next week are Indonesia Inflation (Tue 11:00), US ISM Manufacturing PMI (Wed 22:00), US FOMC Minutes (Thu 02:00), China Caixin Services PMI (Thu 08:45), US Jobless Claims (Thu 20:30), EU Inflation Rate (Fri 17:00), US Non Farm Payrolls & Unemployment Rate (Fri 20:30), US Factory Orders (Fri 22:00).

Investment Conclusion

Fed's aggressive rate hikes had 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 now already at peak and a Fed pivot widely expected in March 2024, we see positive catalysts for JCI to achieve our 2024 target of 7,800 given Indonesia's stable economy, financial markets and currency, as reflected in its declining sovereign risk premiums. Indonesia's equity market has lagged global developed markets in 2023, partly because it was stable and had outperformed in 2022. Our 2024 JCI target of 7,800 is based on our P/E target of 13x, in line with the long-term (> 20 years) historical average P/E valuation.

Recommendation

Our top ETF picks for 2024 are ETF XIHD (High Dividend), XIPI (Pefindo i-Grade), XISR (SRI Kehati), and XIML (MSCI Indonesia Large Cap) – which are unchanged from our 2023 top picks. We believe these ETFs will benefit the most from our expectation of the return foreign inflows into Indonesia's stock market. In 2023, these semi-broad ETFs produced returns of 9.52%, 16.87%, 9.24%, and 8.50%, respectively, outperforming total returns of our broad-based ETFs RLQ45 and XIIT, and especially against our narrow-based (thematic) ETFs, which we view as better suited for trading opportunities (not for long term core holdings).

We target returns of 10-12% for our ETF picks in 2024 - we expect this to come from our 7,800 JCI target (+7.2%) plus dividend yields of 3-5%. The derating of Indonesian big cap stocks valuation to an average P/E of 12x post pandemic, versus a historical mean of 16x in 2009-2019, has raised importance of dividend yields to equity returns, in our view. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	37,689.54	0.81%	13.70%
S&P 500	4,769.83	0.32%	24.23%
Nasdaq	15,011.35	0.12%	43.42%
FTSE 100	7,733.24	0.46%	3.78%
DAX	16,751.64	0.27%	20.31%
Nikkei 225	33,464.17	0.89%	28.24%
Hang Seng	17,047.39	4.33%	-13.82%
Shanghai	2,974.94	2.06%	-3.70%
MSCI World	3,169.18	0.54%	21.77%
MSCI Emerging Markets	1,023.74	3.17%	7.04%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	714.18	2.25%	0.41%
Consumer Cyclical	821.42	1.63%	-3.46%
Transportation	1,601.51	0.07%	-3.64%
Industrials	1,093.76	1.04%	-6.86%
Technology	4,435.61	1.62%	-14.07%
Infrastructures	1,570.03	-0.38%	80.75%
Financials	1,458.32	1.04%	3.07%
Consumer Non-Cyclical	722.40	1.62%	0.82%
Healthcare	1,376.16	1.11%	-12.07%
JCI	7,272.80	0.49%	6.16%
Energy	2,100.86	0.16%	-7.84%
Basic Materials	1,307.47	-1.73%	7.51%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.25	-8 bps	-18 bps
UST 10Y Yield	3.87	-3 bps	-1 bps
Ind GB 10Y Yield	6.48	-2 bps	-46 bps
USDIDR	15,390.10	-76.75	-177.90
CDS Indo 5Y	70.22	0.00	-26.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.68Tn	+7.60Tn
Government Bond Market (Rp)	-0.95Tn	+80.44Tn

Commodities	Last	1W	YTD
WTI	71.32	-2.96%	-11.13%
Brent	76.93	-2.43%	-10.45%
CPO (Malaysia)	3,721.00	-0.45%	-3.83%
Coal (New Castle)	145.45	0.14%	-64.01%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45*	LQ45	1,153.70	0.43%	8.33%
XIIT*	IDX30	590.59	0.74%	6.23%
XIJI	JII	607.35	-0.64%	-6.23%
XISI	SMinfra18	372.29	1.22%	7.79%
XISR	SriKehati	483.20	1.09%	9.24%
XIHD	IDXHIDIV20	662.53	0.72%	9.52%
XIPI	Pefindo I-Grade	241.82	-0.02%	16.87%
XIML	MSCI Indo Large Cap	302.09	0.74%	8.50%
XIID	IDX30	540.35	0.67%	4.31%
XIFE	FTSE ESG Indonesia	118.66	0.94%	4.55%
XIIC	Consumer Related	1,020.06	0.82%	2.55%
XIIF*	Rate Sensitive	535.33	0.98%	4.15%
XISC*	BUMN Stocks	766.79	0.92%	1.88%
XISB	Sovereign Bonds	498.89	0.30%	8.11%

* Total Return

Conventional				
RDMP	Equity	890.78	0.84%	3.65%
RPCF	Balanced	2,658.54	0.83%	4.87%
RDPCDA	Balanced	990.91	0.60%	N/A
RDPCDB	Balanced	984.40	0.56%	N/A
RDPO 2	Fixed Income	1,091.66	0.09%	4.15%
RDPD 2	Money Market	1,444.37	0.09%	4.28%

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. Cyclicals	Commodities	Cash	2023F	2023F	
1 RLQ45	22.5	53.7	14.6	8.2	0.99	15.1	3.9	1.14
2 XIIT	22.9	57.3	9.7	9.5	0.51	13.9	4.3	1.07
3 XISC	22.9	44.8	6.3	13.2	12.87	12.8	5.3	1.33
4 XISR	31.5	58.5	5.7	3.9	0.47	13.5	4.6	1.11
5 XIIF	20.2	58.5	10.8	7.8	2.70	13.4	4.8	1.29
6 XISI	43.8	28.1	15.1	12.6	0.35	12.1	5.4	1.04
7 XIPI	17.4	65.3	13.1	3.4	0.82	17.6	3.6	1.18
8 XIIC	28.4	36.6	22.4	3.2	9.40	14.9	4.0	1.18
9 XIHD	22.1	62.3	2.7	12.5	0.37	11.8	5.1	1.12
10 XIJI	41.2	14.2	23.5	19.7	1.40	13.1	3.8	1.10
11 XIIML	14.9	80.2	0.0	2.0	2.88	13.5	4.8	1.11
12 XIID	23.0	57.5	9.7	9.5	0.30	15.3	4.4	1.07
13 XIFE	24.0	63.5	7.5	4.8	0.26	13.6	4.4	1.14
Index								
IDX80	33.1	41.4	14.8	10.8		12.8	4.9	
JCI	25.3	37.4	14.9	13.0		13.9	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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