

A still robust US jobs growth lowers probabilities of a Fed pivot in March

Global stock markets mostly corrected in the first week of 2024, not surprisingly after nine consecutive weeks of uptrend, amid shrinking market optimism of a Fed pivot in March 2024. Aside from rising geopolitical risks from Middle East and tensions ahead of Taiwan's upcoming elections, market's bullishness were tempered by economic data showing a still resilient US labor market. The US economy added 216,000 new jobs in December, well above November's jobs growth of 173,000 and consensus forecasts of 170,000, and was only marginally below monthly average jobs growth of 225,000 in 2023. Average hourly wages for all employees grew 0.4% MoM, the same rate as in November, albeit above expectations of 0.3%. The US unemployment rate remained unchanged at 3.7%, better than consensus expectations (3.8%). In turn, this led to a 17bps rises in 10-yr US bond yield to 4.05% as yield bounced back from a recent low of 3.79% on December 26, 2023. The strength of the US economy also lowers markets' conviction of a Fed pivot in March 2024, whose probabilities declined to 62%, from as high as 77% only two weeks earlier, according to CME FedWatch Tool. However, the probabilities for a total of 100bps Fed rate cuts in 2024 remained high despite the shift in expectations. Elsewhere in Europe, a reacceleration of Eurozone's inflation rate to 2.9% in December, from 2.4% in November, also lower optimism of an early rate cut although the core inflation rate still eased from 3.6% to 3.4% in line with expectations. In the week ahead, market's focus will likely be on releases of economic data on US inflation rates for consumer and producer prices. For consumer prices, consensus expectations are for core inflation rate to ease to 0.2% MoM and 3.8% YoY in December, from 0.3% and 4.0%, respectively, in the previous month, while headline inflation is expected to pick up to 0.2% and 3.2%, from the prior's month's 0.1% and 3.1%, respectively,

In Indonesia's markets, the JCI gained 1.07% to 7,350 this week, marginally shy of our 7,400 target for 2023, amid significant equity inflows (Rp2.71Tn) for the third consecutive week, which bring total inflows to Rp7.13Tn in the past three weeks. The bond market corrected as 10-yr IDR yield rose 17bps to 6.65% while IDR/USD exchange rate also weakened amid the rebound in US bond yields.

The Week Ahead – Indonesia Motorcycle Sales, US Inflation Rates

The key economic data to focus next week includes US Consumer Inflation Expectations (Mon 23:00), Indonesia Consumer Confidence & Motorcycle Sales (Tue 10:00), US CPI Inflation Rate and Initial Jobless Claims (Thu 20:30), China Inflation Rate (Fri 08:30), US PPI Inflation Rate (Fri 20:30).

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 (vs. 7,273 at end of 2023) 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 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 XI ML (MSCI Indonesia Large Cap) – which are unchanged from our 2023 top picks. We believe these ETFs will benefit the most from our expectation of returning 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 for the second year in a row the total returns of our broad-based ETFs (RLQ45 and XIIT), and especially against our narrow-based (thematic) ETFs - we view the latter ETFs as better suited for short-term trading to benefit from sector rotation, 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	37,466.11	-0.59%	-0.59%
S&P 500	4,697.24	-1.52%	-1.52%
Nasdaq	14,524.07	-3.25%	-3.25%
FTSE 100	7,689.61	-0.56%	-0.56%
DAX	16,594.21	-0.94%	-0.94%
Nikkei 225	33,377.42	-0.26%	-0.26%
Hang Seng	16,498.00	-3.22%	-3.22%
Shanghai	2,929.18	-1.54%	-1.54%
MSCI World	3,120.55	-1.53%	-1.53%
MSCI Emerging Markets	1,002.08	-2.12%	-2.12%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	713.13	-0.15%	-0.15%
Consumer Cyclical	834.49	1.59%	1.59%
Transportation	1,690.91	5.58%	5.58%
Industrials	1,103.76	0.91%	0.91%
Technology	4,381.41	-1.22%	-1.22%
Infrastructures	1,570.16	0.01%	0.01%
Financials	1,491.68	2.29%	2.29%
Consumer Non-Cyclical	719.06	-0.46%	-0.46%
Healthcare	1,325.89	-3.65%	-3.65%
JCI	7,350.62	1.07%	1.07%
Energy	2,180.74	3.80%	3.80%
Basic Materials	1,325.84	1.41%	1.41%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.39	14 bps	14 bps
UST 10Y Yield	4.05	17 bps	17 bps
Ind GB 10Y Yield	6.65	17 bps	17 bps
USDIDR	15,503.35	106.35	106.35
CDS Indo 5Y	70.22	70.22	70.22

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.71Tn	+2.71Tn
Government Bond Market (Rp)	+0.00Tn	+0.00Tn

Commodities	Last	1W	YTD
WTI	73.95	3.21%	3.21%
Brent	78.90	2.41%	2.41%
CPO (Malaysia)	3,682.00	-1.94%	-1.94%
Coal (New Castle)	130.90	-10.59%	-10.59%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45*	LQ45	1,111.85	2.01%	2.01%
XIIT*	IDX30	567.73	1.75%	1.75%
XIJI	JII	616.07	1.43%	1.43%
XISI	SMinfra18	377.38	1.37%	1.37%
XISR	SriKehati	490.21	1.45%	1.45%
XIHD	IDXHIDIV20	677.59	2.27%	2.27%
XIPI	Pefindo I-Grade	247.82	2.48%	2.48%
XI ML	MSCI Indo Large Cap	307.36	1.74%	1.74%
XIID	IDX30	549.54	1.70%	1.70%
XIFE	FTSE ESG Indonesia	120.35	1.42%	1.42%
XIIC	Consumer Related	1,030.29	1.00%	1.00%
XIIF*	Rate Sensitive	540.12	2.01%	2.01%
XISC*	BUMN Stocks	734.73	2.14%	2.14%
XISB	Sovereign Bonds	493.25	-1.13%	-1.13%

* Total Return

Conventional				
RDMP	Equity	906.13	1.72%	1.72%
RPCF	Balanced	2,697.30	1.46%	1.46%
RDPCDA	Balanced	999.62	0.88%	0.88%
RDPCDB	Balanced	992.73	0.85%	0.85%
RDPO 2	Fixed Income	1,088.77	0.09%	0.09%
RDPDU 2	Money Market	1,445.53	0.08%	0.08%

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	21.9	53.9	14.5	8.3	1.32	15.5	3.8	1.14
2 XIIT	22.3	57.7	9.4	9.6	0.88	14.1	4.2	1.07
3 XISC	22.0	45.7	6.2	13.3	12.84	13.0	5.1	1.33
4 XISR	30.7	59.3	5.5	3.8	0.66	13.7	4.5	1.11
5 XIIF	19.7	58.9	10.6	7.9	2.92	13.7	4.7	1.29
6 XISI	43.2	28.5	15.0	12.8	0.55	12.3	5.3	1.04
7 XIPI	16.5	65.4	13.5	3.5	1.02	18.0	3.5	1.18
8 XIIC	28.1	37.2	22.1	3.4	9.17	15.0	4.0	1.18
9 XIHD	21.3	62.4	2.6	12.8	0.87	12.0	5.0	1.12
10 XIJI	40.5	14.2	24.1	20.1	1.22	13.4	3.7	1.10
11 XIML	14.5	80.5	0.0	2.0	3.00	13.8	4.7	1.11
12 XIID	22.4	57.9	9.4	9.7	0.62	15.5	4.4	1.07
13 XIFE	23.4	63.9	7.3	4.9	0.52	13.9	4.3	1.14
Index								
IDX80	32.4	41.8	14.8	11.1		13.0	4.7	
JCI	25.0	38.1	15.0	12.9		14.1	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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