

US GDP upside surprise while core PCE inflation slowed to 2.9%

US and European stocks advanced further as DJIA, S&P500, Stoxx 600 indexes all rose to new all-time highs amid a strengthening of the case for soft landing in the US. The US economy expanded at 3.3% (annualised) rate in Q4 2023 over the prior quarter, slower than 4.9% rate in Q3, but was well ahead of consensus forecasts of a 2% rise. The year-on-year GDP growth of 3.1% in Q4 also beat the Fed's revised forecasts of 2.6%, thus easing concerns about prospects for a recession. The strength of the US economy as it enters 2024 is also reflected in January's manufacturing & services activities expansions, which also surpassed expectations, and December's strong durable goods order (ex auto) growth of 0.6% MoM. Meanwhile, US inflation continues moderating as core PCE inflation, the Fed's preferred inflation metric, slowed to 2.93% in December, continuing its downtrend over the past year. For Q4 2024, the Fed's median forecasts are for GDP growth of 1.4% and core PCE inflation of 2.4% while the Fed funds rate is expected to decline to 4.50-4.75% range. On the other hand, the strength of US economy has also shifted market expectations on the timing of a Fed pivot (to easing) from March to May 2024, at the earliest. In the bond market, 10-yr US yield rose only 2bps to 4.14% as the GDP surprise was offset by higher than expected US weekly jobless claims of 214,000. However, 10-yr US yields have bounced back from recent low of 3.79% in December, reflecting the strength of US economy. In the week ahead, investors focus will be on Fed meeting, which is expected to hold rate steady, and January jobs growth (consensus: 173,000), after an unexpectedly strong growth of 216,000 jobs in December.

In Indonesia, the JCI fell by 1.25% this week amid a trend reversal in fund flows to a net foreign sells of Rp2.75Tn (-Rp886Bn in the prior week), after four weeks of net inflows. As such, stock markets in Indonesia and India were in contrary to the general rise in EM equities markets this week. The significant foreign selling is reflected in steeper falls of our ETFs such as XIIM (-3.59%), XIFE (-3.02%), XIIT (-3.00%), and XIHD (-2.82%), while the corrections in JCI and our ETF XIPI were more modest due to gains of ramped-up big cap stocks (eg. TPIA, BREN).

The Week Ahead – Indonesia Inflation, Fed Rate Decision, US Jobs Reports

The key economic data to focus next week include US CB Consumer Confidence (Tue 22:00), China NBS Manufacturing & Non-Manufacturing PMIs (Wed 08:30), Fed Interest Rate Decision (Thu 02:00), Indonesia Inflation Rate (Thu 11:00), EU Inflation Rate (Thu 17:00), US Jobless Claims (Thu 20:30), US ISM Manufacturing PMI (22:00), US Non Farm Payrolls and Unemployment 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 XIIM (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	38,109.43	0.65%	1.11%
S&P 500	4,890.97	1.06%	2.54%
Nasdaq	15,455.36	0.94%	2.96%
FTSE 100	7,635.09	2.32%	-1.27%
DAX	16,961.39	2.45%	1.25%
Nikkei 225	35,751.07	-0.59%	6.83%
Hang Seng	15,952.23	4.20%	-6.42%
Shanghai	2,910.22	2.75%	-2.18%
MSCI World	3,216.23	1.29%	1.48%
MSCI Emerging Markets	985.10	1.46%	-3.77%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	701.80	-0.08%	-1.73%
Consumer Cyclical	848.85	-1.49%	3.34%
Transportation	1,581.62	-5.94%	-1.24%
Industrials	1,084.62	-2.52%	-0.84%
Technology	4,074.19	-3.66%	-8.15%
Infrastructures	1,533.17	0.16%	-2.35%
Financials	1,519.17	0.73%	4.17%
Consumer Non-Cyclical	696.55	-0.98%	-3.58%
Healthcare	1,311.94	0.42%	-4.67%
JCI	7,137.09	-1.25%	-1.87%
Energy	2,115.97	-2.22%	0.72%
Basic Materials	1,284.91	-0.51%	-1.73%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.36	-3 bps	11 bps
UST 10Y Yield	4.14	2 bps	26 bps
Ind GB 10Y Yield	6.64	2 bps	16 bps
USDIDR	15,775.25	160.25	378.25
CDS Indo 5Y	76.50	+2.22	+4.06

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2,751Bn	+1,809Bn
Government Bond Market (Rp)	+1.65	+7.12Tn

Commodities	Last	1W	YTD
WTI	78.01	6.27%	8.88%
Brent	83.66	6.49%	8.59%
CPO (Malaysia)	4,017.00	7.93%	6.98%
Coal (New Castle)	126.80	-0.94%	-13.39%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,073.05	-2.13%	-1.55%
XIIT	IDX30	546.46	-3.00%	-2.06%
XIJI	JII	596.50	-0.06%	-1.79%
XISI	SMinfra18	372.87	-1.75%	0.16%
XISR	SriKehati	480.15	-2.31%	-0.63%
XIHD	IDXHIDIV20	658.56	-2.82%	-0.60%
XIPI	Pefindo I-Grade	240.31	-1.63%	-0.62%
XIIM	MSCI Indo Large Cap	296.84	-3.59%	-1.74%
XIID	IDX30	527.91	-3.08%	-2.30%
XIFE	FTSE ESG Indonesia	116.30	-3.02%	-1.99%
XIIC	Consumer Related	1,004.54	-2.15%	-1.52%
XIIF	Rate Sensitive	527.69	-2.29%	-0.33%
XISC	BUMN Stocks	721.23	-1.95%	0.26%
XISB	Sovereign Bonds	495.17	-0.42%	-0.75%

Conventional		Last	1W	YTD
RDMP	Equity	887.14	-2.18%	-0.41%
RPCF	Balanced	2,638.17	-2.06%	-0.77%
RDPEDA	Balanced	989.93	-1.21%	-0.10%
RDPEDB	Balanced	982.10	-1.25%	-0.23%
RDPO 2	Fixed Income	1,088.15	-0.25%	0.03%
RDPU 2	Money Market	1,449.47	0.09%	0.35%

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	22.6	53.7	14.1	8.3	1.33	14.9	4.1	1.14
2 XIIT	22.6	57.6	8.9	9.7	1.19	13.6	4.5	1.07
3 XISC	22.5	44.9	6.1	12.8	13.67	12.6	5.4	1.33
4 XISR	31.6	58.6	5.5	3.7	0.58	13.3	4.8	1.11
5 XIIF	20.6	58.0	10.1	7.8	3.58	13.4	5.0	1.29
6 XISI	43.8	27.6	15.3	12.8	0.48	12.0	5.5	1.04
7 XIPI	17.4	65.3	12.8	3.5	0.98	16.9	3.8	1.18
8 XIIC	28.8	36.0	21.4	3.3	10.39	14.5	4.2	1.18
9 XIHD	22.2	61.5	2.5	12.9	0.82	11.5	5.4	1.12
10 XIJI	41.7	13.4	21.8	19.8	3.25	12.9	3.8	1.10
11 XIML	15.1	79.6	0.0	2.1	3.16	13.4	5.0	1.11
12 XIID	22.7	58.0	8.9	9.7	0.71	14.9	4.7	1.07
13 XIFE	24.1	63.7	6.9	4.9	0.44	13.3	4.6	1.14
Index								
IDX80	32.9	41.6	14.4	11.1		12.5	4.8	
JCI	25.3	37.8	15.4	13.1		13.5	4.2	

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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