

US consumer sentiment surge, Fed signals rate cuts albeit not soon

US stocks continued to lead global markets with both DJIA and S&P500 indexes rising to all time highs on Friday amid a surge in US consumer sentiment to its highest level since July 2021. The University of Michigan's consumer sentiment index soared to 78.8 in January 2024 (December: 69.7), driven by lower inflation expectations for the year ahead and higher income expectations. Earlier in the week, US stocks had corrected after comments from Fed Governor Christopher Waller saying that he saw no reason to cut rate as rapidly as in the past given the healthy state of the US economy. This signal from Fed, coupled with mixed inflation reports in the previous week, led to a rebound in 10-yr US bond yields to 4.13% (+19bps) and shifting investors' rate cut expectations. CME FedWatch Tool, which estimates the probabilities of changes to Fed rate based on Fed Funds futures pricing data, shows the probabilities for a Fed rate cut in March has declined to 46.2%, from as high as 76.9% on 12 January. The strength of US economy is also revealed by the December retail sales, which grew 0.6% MoM, after 0.3% rise in November, surpassing consensus forecasts of 0.4%. Excluding auto sales, December retail sales growth of 0.4% also exceeded expectations of 0.2%. Elsewhere, China's annual GDP growth of 5.2% in the fourth quarter was better than 4.9% growth in Q3 but less than market expectations of 5.3%. In the week ahead, investors' focus will be on the releases of US GDP growth, which is expected to grow at 2% (annualized) in Q4, a still solid albeit slower than 4.9% in Q3, while a key US inflation metric, the Core PCE Price Index, is forecast to rise 0.2% MoM (3% YoY) in December vs. 0.1%/3.2% in November, respectively.

In Indonesia, the JCI fell by 0.19% this week due to corrections in big cap stocks amid a small foreign net sells of Rp886bn, a reversal from large inflows in the prior four weeks. However, the impact on JCI from corrections of the big cap stocks was cushioned by recoveries of the inflated (ramped up) stocks such as TPIA, BREN, AMMN, BRPT, which had corrected sharply in the prior week. The big cap stocks corrections are reflected in our ETFs such as XISR (-1.13%), XIHD (-1.21%), XIIT (-1.22%), and XIIM (-1.21%), while XIPI (+0.09%) gained due to recoveries of the Barito group stocks mentioned above.

The Week Ahead – ECB Rate Decision, US GDP Growth, US PCE Price Index

The key economic data to focus next week are US S&P Global Manufacturing & Services PMIs (Wed 21:45), ECB Interest Rate Decision (Thu 20:15), US Durable Goods Orders, GDP Growth Rate and Initial Jobless Claims (Thu 20:30), US PCE Price Index and US Personal Income & Spending Growth (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	37,863.80	0.72%	0.46%
S&P 500	4,839.81	1.17%	1.47%
Nasdaq	15,310.97	2.26%	2.00%
FTSE 100	7,461.93	-2.14%	-3.51%
DAX	16,555.13	-0.89%	-1.17%
Nikkei 225	35,963.27	1.09%	7.47%
Hang Seng	15,308.69	-5.76%	-10.20%
Shanghai	2,832.28	-1.72%	-4.80%
MSCI World	3,175.36	0.22%	0.20%
MSCI Emerging Markets	970.91	-2.55%	-5.16%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	702.36	-1.75%	-1.66%
Consumer Cyclical	861.65	0.40%	4.90%
Transportation	1,681.49	1.19%	4.99%
Industrials	1,112.63	-0.30%	1.73%
Technology	4,228.82	-2.48%	-4.66%
Infrastructures	1,530.68	-0.29%	-2.51%
Financials	1,508.10	-1.07%	3.41%
Consumer Non-Cyclicals	703.45	-0.20%	-2.62%
Healthcare	1,306.51	-2.98%	-5.06%
JCI	7,227.40	-0.19%	-0.62%
Energy	2,164.08	-0.61%	3.01%
Basic Materials	1,291.50	3.37%	-1.22%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.34	19 bps	9 bps
UST 10Y Yield	4.13	19 bps	25 bps
Ind GB 10Y Yield	6.60	-6 bps	12 bps
USDIDR	15,619.65	69.65	222.65
CDS Indo 5Y	74.28	+1.32	2.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-886.5Bn	+4.63Tn
Government Bond Market (Rp)	-3.09	+1.85Tn

Commodities	Last	1W	YTD
WTI	73.25	0.78%	2.23%
Brent	78.80	0.65%	2.28%
CPO (Malaysia)	3,939.00	7.71%	4.90%
Coal (New Castle)	128.90	-1.49%	-11.95%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,096.38	-0.48%	0.59%
XIIT	IDX30	563.33	-1.22%	0.96%
XIJI	JII	596.83	0.07%	-1.73%
XISI	SMinfra18	379.49	-0.96%	1.94%
XISR	SriKehati	491.49	-1.13%	1.71%
XIHD	IDXHIDIV20	677.66	-1.21%	2.28%
XIPI	Pefindo I-Grade	244.29	0.09%	1.02%
XIIM	MSCI Indo Large Cap	307.90	-1.37%	1.92%
XIID	IDX30	544.70	-1.28%	0.80%
XIFE	FTSE ESG Indonesia	119.93	-1.03%	1.07%
XIIC	Consumer Related	1,026.62	-0.62%	0.64%
XIIF	Rate Sensitive	540.04	-1.03%	2.00%
XISC	BUMN Stocks	735.59	-0.71%	2.25%
XISB	Sovereign Bonds	497.27	0.42%	-0.33%

Conventional	Last	1W	YTD	
RDMP	Equity	906.88	-0.93%	1.81%
RPCF	Balanced	2,693.54	-0.76%	1.32%
RDPCDA	Balanced	1,002.09	-0.67%	1.13%
RDPCDB	Balanced	994.50	-0.71%	1.03%
RDPO 2	Fixed Income	1,090.90	0.10%	0.28%
RDPU 2	Money Market	1,448.16	0.09%	0.26%

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	22.3	54.9	13.2	8.4	1.31	15.1	3.9	1.14
2 XIIT	22.4	58.3	8.7	9.7	0.86	14.0	4.2	1.07
3 XISC	22.0	45.7	5.9	13.1	13.33	13.0	5.0	1.33
4 XISR	30.9	59.5	5.3	3.7	0.60	13.8	4.5	1.11
5 XIIF	20.0	58.7	9.9	7.8	3.51	13.8	4.7	1.29
6 XISI	43.1	28.5	14.7	13.2	0.50	12.4	5.2	1.04
7 XIPI	17.0	66.9	11.7	3.5	0.99	17.1	3.6	1.18
8 XIIC	28.4	36.8	21.2	3.3	10.22	15.0	3.9	1.18
9 XIHD	21.5	62.4	2.5	12.9	0.82	12.0	5.0	1.12
10 XIJI	42.1	14.0	22.3	20.5	1.13	12.6	3.9	1.10
11 XIIML	14.6	80.4	0.0	2.1	2.96	13.8	4.6	1.11
12 XIID	22.5	58.6	8.7	9.7	0.48	15.4	4.4	1.07
13 XIFE	23.5	64.4	6.8	4.8	0.46	13.8	4.3	1.14
Index								
IDX80	32.4	42.4	14.0	11.2		12.7	4.8	
JCI	25.3	38.9	14.4	13.2		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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