

US consumer inflation picks up but producer prices continued easing

US stocks continued to lead global stock markets, with S&P500 index resuming its advance to within 0.3% of its all time high reached on January 3, 2022, after rising by 16.2% over the past ten weeks. This week started strongly amid report on Monday that US consumer inflation expectations for the year ahead fell for a third consecutive month to 3% in December 2023, from 3.4% in November, its lowest level since January 2021. However, Thursday's release of US consumer inflation data surprises on the upside as consumer prices in December rose by 0.3% MoM (+3.4% YoY), up from 0.1% (+3.1% YoY) in November, surpassing market expectations of 0.2%. Core consumer prices growth was more stable at 0.3% MoM, in line with expectations. In spite of this, US markets shrugged off the inflation data as yield pullback continues amid Friday's more positive report on producer prices inflation, which unexpectedly fell 0.1% MoM (+1% YoY) in December, the same as in November, compared to forecasts of a 0.1% rise. Meanwhile, core producer prices were unchanged in December, and rose 1.8% YoY, its lowest inflation rate since December 2020. Despite a mixed inflation reports, markets' optimism for a Fed pivot rebounded as 30-Day Fed Funds futures pricing data implies 77% probabilities of 25bps rate cut in March 2024, up from 64% a week ago, according to CME FedWatch Tool. In the week ahead, investors focus will likely be on the releases of data on China GDP growth and US retail sales for the December holiday season, with market expectations of a 0.4% MoM growth, thus continuing the 0.3% MoM rebound in November.

In Indonesia, the JCI dropped 1.49% this week, albeit largely due to corrections of certain highly inflated big cap stocks, while majority of big cap stocks gained amid significant equity inflows of Rp2.72Tn, which have been sustained for the fourth consecutive week and brought total inflows to nearly Rp10Tn in the past four weeks. The gains for most of the big cap stocks were evident from the rise of our semi broad ETFs such as XIIM (+1.57%), XISR (+1.40%), XIHD (+1.23%). Meanwhile, the bond market gained as the 10-yr IDR yield eased 5bps to 6.66% despite significant foreign outflows of Rp2.08Tn.

The Week Ahead – China GDP Growth, BI Rate Decision, US Retail Sales

The key economic data to focus next week includes Indonesia Trade Balance (Mon 11:00), China GDP Growth Rate, Industrial Production and Retail Sales (Wed 09:00), BI Interest Rate Decision (Wed 14:30), US Retail Sales (Wed 20:30), US Industrial Production (Wed 21:15), US Initial Jobless Claims (Thu 20:30), and US Michigan Consumer Sentiment Survey (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 (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	37,592.98	0.34%	-0.26%
S&P 500	4,783.83	1.84%	0.29%
Nasdaq	14,972.76	3.09%	-0.26%
FTSE 100	7,624.93	-0.84%	-1.40%
DAX	16,704.56	0.66%	-0.28%
Nikkei 225	35,577.11	6.59%	6.31%
Hang Seng	16,244.58	-1.76%	-4.71%
Shanghai	2,881.98	-1.61%	-3.12%
MSCI World	3,168.31	1.53%	-0.03%
MSCI Emerging Markets	996.30	-0.58%	-2.68%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	714.89	0.25%	0.10%
Consumer Cyclical	858.20	2.84%	4.48%
Transportation	1,661.66	-1.73%	3.76%
Industrials	1,115.97	1.11%	2.03%
Technology	4,336.56	-1.02%	-2.23%
Infrastructures	1,535.15	-2.23%	-2.22%
Financials	1,524.48	2.20%	4.54%
Consumer Non-Cyclical	704.84	-1.98%	-2.43%
Healthcare	1,346.71	1.57%	-2.14%
JCI	7,241.14	-1.49%	-0.44%
Energy	2,177.36	-0.15%	3.64%
Basic Materials	1,249.42	-5.76%	-4.44%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.15	-23 bps	-10 bps
UST 10Y Yield	3.94	-11 bps	6 bps
Ind GB 10Y Yield	6.66	-5 bps	18 bps
USDIDR	15,538.20	23.20	141.20
CDS Indo 5Y	72.96	-3.78	+2.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.72Tn	+5.43Tn
Government Bond Market (Rp)	-2.08Tn	+4.94Tn

Commodities	Last	1W	YTD
WTI	72.68	-1.53%	1.44%
Brent	78.41	-0.44%	1.78%
CPO (Malaysia)	3,856.00	2.47%	2.69%
Coal (New Castle)	130.75	-0.61%	-10.69%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	1,101.72	-0.91%	1.08%
XIIT	IDX30	570.27	0.45%	2.20%
XIJI	JII	596.41	-3.19%	-1.80%
XISI	SMinfra18	383.18	1.54%	2.93%
XISR	SriKehati	497.08	1.40%	2.87%
XIHD	IDXHIDIV20	685.94	1.23%	3.53%
XIPI	Pefindo I-Grade	244.07	-1.52%	0.93%
XIIM	MSCI Indo Large Cap	312.17	1.57%	3.34%
XIID	IDX30	551.75	0.40%	2.11%
XIFE	FTSE ESG Indonesia	121.17	0.68%	2.11%
XIIC	Consumer Related	1,033.02	0.27%	1.27%
XIIF	Rate Sensitive	545.67	1.03%	3.06%
XISC	BUMN Stocks	740.88	0.84%	2.99%
XISB	Sovereign Bonds	495.17	0.39%	-0.74%

Conventional		Last	1W	YTD
RDMP	Equity	915.43	1.03%	2.77%
RPCF	Balanced	2,714.12	0.62%	2.09%
RDPCDA	Balanced	1,008.90	0.93%	1.82%
RDPCDB	Balanced	1,001.60	0.89%	1.75%
RDPO 2	Fixed Income	1,089.84	0.10%	0.18%
RDPDU 2	Money Market	1,446.92	0.10%	0.18%

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	55.2	12.5	8.3	1.32	15.1	3.9	1.14
2 XIIT	22.7	58.3	8.6	9.5	0.87	14.2	4.2	1.07
3 XISC	22.2	45.7	6.1	12.9	13.21	13.2	5.0	1.33
4 XISR	30.9	59.5	5.4	3.6	0.63	13.9	4.5	1.11
5 XIIF	20.0	58.8	10.0	7.7	3.52	13.9	4.6	1.29
6 XISI	43.2	28.5	14.7	13.0	0.52	12.5	5.2	1.04
7 XIPI	17.3	67.5	10.9	3.3	1.02	17.4	3.6	1.18
8 XIIC	28.4	37.2	21.3	3.2	9.86	15.1	3.9	1.18
9 XIHD	21.5	62.5	2.5	12.8	0.84	12.1	4.9	1.12
10 XIJI	42.9	14.6	21.0	20.3	1.22	12.3	4.0	1.10
11 XI ML	14.6	80.4	0.0	2.1	2.94	14.0	4.6	1.11
12 XIID	22.8	58.6	8.6	9.5	0.55	15.6	4.3	1.07
13 XIFE	23.8	64.4	6.8	4.5	0.48	13.9	4.2	1.14
Index								
IDX80	32.8	42.5	13.8	11.0		12.8	4.8	
JCI	25.6	39.3	14.0	12.9		13.8	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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