

Nvidia's upside earnings surprises outweigh Fed's inflation concerns

US stock indexes led global stock markets to new highs, continuing their strong upward momentum since recent lows on 27th October (DJIA: +20.7%; S&P500: +23.6%; Nasdaq: +26.5%). This week's gains were largely driven by chipmaker Nvidia's earnings surprises, which beat consensus forecasts by 11% on stronger than expected revenue growth, driven by strong chip demand from generative AI and an industry-wide shift away from central processors to accelerators that Nvidia makes. Prior to this, US stocks had corrected following release of FOMC Minutes from Fed's late January meeting that revealed concerns by Fed officials who noted the risk that progress towards price stability could stall due to the strength of US economy and labor market. The US weekly initial jobless claims data, which were lower than expected (at 201,000 vs. 218,000), and an uptick in US manufacturing activity in February (based on S&P Global's PMI survey) to its highest level in 17 months, also supports this view. Meanwhile, Fed Governor Christopher Waller commented that although he believes inflation will return to Fed's 2% target, a few more months of data will be needed to conclude on the inflation progress towards this target. On the back of this, 10-yr US bond yields rose slightly to 4.32% (+5bps) but market expectations of the Fed's first rate cut to be made during its June 2024 meeting was largely unchanged. Next week, investors' focus will likely be on the release of 2nd estimate of US GDP growth, which previously was reported to grow at 3.3% (annualised) in Q4, and January PCE Price Index (consensus: 0.3% MoM; 2.4% YoY).

In Indonesia, the JCI fell 0.55% this week amid a net foreign selling of Rp1.57Tn, a reversal from inflows of Rp6.72Tn in the prior week, while the domestic bond market reported larger outflows of Rp4.05Tn. This week's foreign selling led to underperformances of our ETF picks such as XIIM (-1.47%), XIHD (-1.37%), XIPI (-1.23%), XISR (-0.80%), although these ETFs still well outperform the JCI market index so far in 2024, as also during the prior two years in 2023 and 2022.

The Week Ahead – US GDP Growth & PCE Price Index, Indonesia Inflation

The key economic data to focus next week are ECB President Lagarde Speech (Mon 23:00), US Durable Goods Orders (Tue 20:30) & CB Consumer Confidence (Tue 22:00), US GDP Growth and PCE Prices 2nd Estimates (Wed 20:30), US PCE Price Index, Personal Income & Spending, and Initial Jobless Claims (Thu 20:30), Indonesia S&P Global Manufacturing PMI (Fri 07:30), China NBS and Caixin Manufacturing PMI (Fri 08:30), Indonesia Inflation Rate (Fri 11:00), EU Inflation Rate (Fri 17:00), US ISM Manufacturing PMI (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 now expected in June 2024 (previously March), 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 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	39,131.53	1.30%	3.83%
S&P 500	5,088.80	1.66%	6.69%
Nasdaq	15,996.82	1.40%	6.56%
FTSE 100	7,706.28	-0.07%	-0.35%
DAX	17,419.33	1.76%	3.99%
Nikkei 225	39,098.68	1.59%	16.84%
Hang Seng	16,725.86	2.36%	-1.89%
Shanghai	3,004.88	4.85%	1.01%
MSCI World	3,334.04	1.49%	5.20%
MSCI Emerging Markets	1,028.31	1.19%	0.45%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	698.58	0.23%	-2.18%
Consumer Cyclical	854.55	1.21%	4.03%
Transportation	1,586.65	1.27%	-0.93%
Industrials	1,096.96	0.68%	0.29%
Technology	3,845.69	-1.80%	-13.30%
Infrastructures	1,565.48	2.00%	-0.29%
Financials	1,527.85	0.26%	4.77%
Consumer Non-Cyclical	707.98	0.33%	-2.00%
Healthcare	1,348.13	0.86%	-2.04%
JCI	7,295.10	-0.55%	0.31%
Energy	2,107.08	0.50%	0.30%
Basic Materials	1,248.93	-0.14%	-4.48%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.69	5 bps	44 bps
UST 10Y Yield	4.32	5 bps	45 bps
Ind GB 10Y Yield	6.56	-6 bps	8 bps
USDIDR	15,594.15	-25.85	197.15
CDS Indo 5Y	68.39	-3.86	-1.82

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.57Tn	+15.83Tn
Government Bond Market (Rp)	-4.05Tn	-5.86Tn

Commodities	Last	1W	YTD
WTI	76.49	-2.51%	6.76%
Brent	81.68	-2.14%	6.02%
CPO (Malaysia)	3,853.00	1.16%	3.55%
Coal (New Castle)	119.40	0.13%	-18.44%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,120.74	-1.19%	2.83%
XIIT	IDX30	571.05	-1.52%	2.35%
XIJJ	JII	590.18	-1.21%	-2.83%
XISI	SMIInfra18	389.18	0.36%	4.54%
XISR	SriKehati	507.85	-0.80%	5.10%
XIHD	IDXHIDIV20	692.61	-1.37%	4.54%
XIPI	Pefindo I-Grade	253.54	-1.23%	4.85%
XIIM	MSCI Indo Large Cap	315.02	-1.47%	4.28%
XIID	IDX30	550.13	-1.61%	1.81%
XIFE	FTSE ESG Indonesia	122.32	-1.12%	3.08%
XIIC	Consumer Related	1,040.73	-0.63%	2.03%
XIIF	Rate Sensitive	557.23	-0.07%	5.25%
XISC	BUMN Stocks	763.10	-0.15%	6.08%
XISB	Sovereign Bonds	499.55	0.40%	0.13%

Conventional	Last	1W	YTD	
RDMP	Equity	924.90	-0.58%	3.83%
RPCF	Balanced	2,757.95	-0.85%	3.74%
RDPCDA	Balanced	1,018.31	-0.38%	2.77%
RDPCDB	Balanced	1,008.92	-0.41%	2.49%
RDPO 2	Fixed Income	1,088.66	-0.25%	0.08%
RDPU 2	Money Market	1,454.37	0.09%	0.69%

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	22.9	56.5	10.2	8.1	2.28	15.4	4.1	1.14
2 XIIT	22.2	58.4	9.6	8.6	1.20	14.2	4.5	1.07
3 XISC	21.8	43.9	5.8	12.2	16.34	13.7	5.3	1.33
4 XISR	30.1	60.9	5.2	3.4	0.44	14.1	4.8	1.11
5 XIIF	20.2	57.0	9.5	7.3	6.01	14.3	4.8	1.29
6 XISI	43.0	29.1	14.6	12.5	0.87	13.0	5.5	1.04
7 XIPI	17.1	67.9	11.1	3.0	0.84	17.7	3.9	1.18
8 XIIC	28.4	35.8	21.1	3.1	11.64	15.3	4.2	1.18
9 XIHD	23.1	59.5	4.1	12.5	0.87	12.3	5.2	1.12
10 XIJI	42.1	13.8	21.3	19.4	3.41	12.4	3.8	1.10
11 XIML	14.3	80.7	0.0	2.0	3.07	14.3	4.9	1.11
12 XIID	22.2	58.6	9.6	8.6	1.00	15.7	4.6	1.07
13 XIFE	22.9	65.9	6.6	4.3	0.29	14.0	4.5	1.14
Index								
IDX80	32.1	43.6	13.8	10.6		12.9	4.4	
JCI	24.9	39.8	14.1	12.6		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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