

US services activity jump, Dec inflation revised down, earnings upgraded

Global markets advanced further, led by US stock indexes which have risen for 14 out of the past 15 weeks, with S&P500 gaining 22% since reaching its lows on 27th October 2023. The stock market rally is driven by a robust US economy that defies markets' recession expectations, as reflected by strong jobs growth and low unemployment rate, while inflation is receding. However, the resilient US economy has also reversed the yield downtrend as 10-yr US Treasury yields rose to 4.18%, from recent low of 3.79% on 27th October. This week's economic data further confirms the trend as ISM Services PMI jumped to 53.4 in January, from 50.5 in December, ahead of forecasts of 52.0, while weekly jobless claims were also lower than expected. US earnings have also surprised on the upside. Based on 332 companies in the S&P500 that have reported Q4 earnings to date, overall earnings are 6.8% above estimates, with S&P500 earnings now expected to grow 9.0% YoY in Q4 2023, according to LSEG I/B/E/S. Meanwhile, December consumer inflation rate was revised down to 0.2% MoM, from 0.3% as initially reported, although the core inflation rate was unchanged at 0.3%. The strength of US economy has also shifted market expectations of the timing of Fed's first rate cut, from March to May 2024 (at the earliest), in line with Fed's signals that they see no reason to cut rates early. In Europe, ECB officials similarly continued to warn against cutting rates too early before they are confident inflation would reach the 2% target. In the week ahead, markets' focus will be on data release of US January consumer inflation rates (consensus: 0.2% MoM; 3.0% YoY).

In Indonesia, the JCI rose 0.38% this week amid fund inflows (Rp3.4Tn) for the second consecutive week, after net foreign selling in the prior two weeks, while the local bond market reported outflows (Rp0.42Tn). This week's further foreign buying boosted NAVs of our top ETF picks: XIHL (+1.87%), XIHD (+1.48%), XIPI (+1.23%), and XISR (+1.10%), all four ETFs outperformed the JCI market index, and our broad-based ETFs RLQ45 and XIIT (based on IDX30) so far in 2024, as also during the prior two years in 2023 and 2022.

The Week Ahead – Indonesia Elections, US Inflation Rates, US Retail Sales

The key economic data to focus next week: US Consumer Inflation Expectations (Mon 23:00), Indonesia Consumer Confidence (Tue 10:00), US CPI Inflation Rate (Tue 20:30), Indonesia Presidential Election (Wed), Indonesia Trade Balance (Thu 11:00), US Retail Sales and Initial Jobless Claims (Thu 20:30), US Industrial and Manufacturing Production (Thu 21:15), Indonesia Retail Sales (Fri 10:00), US PPI Inflation Rate (Fri 20:30), 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 XIHL (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	38,671.69	0.04%	2.61%
S&P 500	5,026.61	1.37%	5.38%
Nasdaq	15,990.66	2.31%	6.52%
FTSE 100	7,572.58	-0.56%	-2.08%
DAX	16,926.50	0.05%	1.04%
Nikkei 225	36,897.42	2.04%	10.26%
Hang Seng	15,746.58	1.37%	-7.63%
Shanghai	2,865.90	4.97%	-3.67%
MSCI World	3,281.42	1.04%	3.54%
MSCI Emerging Markets	995.53	0.74%	-2.76%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	696.23	-0.35%	-2.51%
Consumer Cyclical	851.33	-0.70%	3.64%
Transportation	1,566.07	-1.32%	-2.21%
Industrials	1,082.91	-0.49%	-0.99%
Technology	3,993.83	-3.25%	-9.96%
Infrastructures	1,517.29	-0.37%	-3.36%
Financials	1,503.48	-0.69%	3.10%
Consumer Non-Cyclical	703.24	0.61%	-2.65%
Healthcare	1,336.55	1.52%	-2.88%
JCI	7,235.15	0.38%	-0.52%
Energy	2,076.97	-1.39%	-1.14%
Basic Materials	1,244.03	-3.12%	-4.85%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.49	11 bps	24 bps
UST 10Y Yield	4.18	15 bps	30 bps
Ind GB 10Y Yield	6.62	4 bps	14 bps
USDIDR	15,611.45	-168.55	214.45
CDS Indo 5Y	74.02	-0.37	4.99

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4,52Tn	+8,24Tn
Government Bond Market (Rp)	-0.42Tn	+0,26Tn

Commodities	Last	1W	YTD
WTI	76.84	6.31%	7.24%
Brent	82.19	6.28%	6.68%
CPO (Malaysia)	3,884.00	1.41%	3.44%
Coal (New Castle)	120.00	3.64%	-18.03%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	1,107.42	0.93%	1.60%
XIIT	IDX30	565.59	1.06%	1.37%
XIJI	JII	599.24	-0.57%	-1.34%
XISI	SMinfra18	377.81	0.22%	1.48%
XISR	SriKehati	497.32	1.10%	2.92%
XIHD	IDXHIDIV20	684.27	1.48%	3.28%
XIPI	Pefindo I-Grade	250.00	1.23%	3.38%
XIHL	MSCI Indo Large Cap	311.02	1.87%	2.96%
XIID	IDX30	545.93	1.04%	1.03%
XIFE	FTSE ESG Indonesia	120.65	1.12%	1.68%
XIIC	Consumer Related	1,030.79	1.03%	1.05%
XIIF	Rate Sensitive	543.66	0.53%	2.68%
XISC	BUMN Stocks	740.34	-0.36%	2.92%
XISB	Sovereign Bonds	498.00	0.04%	-0.18%

Conventional		Last	1W	YTD
RDMP	Equity	911.58	0.68%	2.34%
RPCF	Balanced	2,709.69	0.84%	1.92%
RDPCDA	Balanced	1,009.75	0.63%	1.90%
RDPCDB	Balanced	1,001.22	0.60%	1.71%
RDPO 2	Fixed Income	1,089.89	0.10%	0.19%
RDP2U	Money Market	1,451.50	0.09%	0.49%

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	23.1	56.2	10.4	8.1	2.31	15.4	4.1	1.14
2 XIIT	22.3	58.0	9.8	8.6	1.22	14.1	4.5	1.07
3 XISC	22.1	46.5	5.9	11.9	13.58	13.3	5.4	1.33
4 XISR	30.5	60.5	5.2	3.3	0.52	13.9	4.8	1.11
5 XIIF	19.8	59.3	9.8	7.4	3.64	14.0	4.9	1.29
6 XISI	42.4	29.0	14.9	12.8	0.96	12.6	5.5	1.04
7 XIPI	16.8	67.1	12.1	3.1	0.91	17.5	3.8	1.18
8 XIIC	28.1	37.1	21.3	3.1	10.37	15.1	4.2	1.18
9 XIHD	22.9	59.3	4.2	12.7	0.94	12.1	5.3	1.12
10 XIJI	41.6	14.0	21.9	19.1	3.42	12.9	3.8	1.10
11 XIIML	14.4	80.6	0.0	2.0	3.02	14.1	4.9	1.11
12 XIID	22.3	58.1	9.8	8.6	1.21	15.5	4.7	1.07
13 XIFE	23.2	65.4	6.7	4.4	0.37	13.9	4.5	1.14
Index								
IDX80	32.1	43.2	14.1	10.6		12.9	4.7	
JCI	24.9	39.5	14.6	12.6		13.9	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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