

Fed still anticipate three rate cuts in 2024 despite sticky inflation

US stock indexes resume their bullish momentum and reach new all time highs after a two-week halt due to mixed progress in curbing inflation in the past two months. This week's stock gains were mostly generated on Wednesday, after conclusion of Fed meeting with the release of quarterly economic projections, which maintains its rate outlook intact. The path of interest rate, as reflected by median forecasts of FOMC members, maintains expectation for three rate cuts in 2024 although the expectations for interest rates in 2025 and 2026 went up by 20-30bps. Fed Chair Powell stated that he was not overly concerned about higher inflationary data in January and February as it hasn't changed its overall trend downward. Powell also stated that continued strength in the labor market wouldn't be a reason to hold off lowering interest rates. The FOMC projections revised up outlook for US Q4 2024 GDP growth to 2.1% YoY (from 1.4%), while the forecasts for unemployment rate (4.0%) and core PCE inflation (2.6%) were revised slightly. In the bond market, the 10-yr US Treasury yields eased to 4.2% (-10bps), from 4.34% prior to the Fed meeting. Meanwhile, the probabilities for Fed rate cut in June 2024 has increased to 66.7%, from 55.2% in the prior week, according to CME FedWatch Tool. Elsewhere, the Nikkei index gained 5.63% as Japan's central bank finally raised interest rates for the first time since 2007, while China equities corrected due to concerns over its property sector slump. In the week ahead, markets' focus will likely be on the release of the PCE Price Index for February, which could clear up recent uncertainty over the inflation's trajectory. Consensus forecasts are for the core PCE Price Index to rise at 0.4% MoM and 2.8% YoY in February vs. 0.3% / 2.8%, respectively, in January.

In Indonesia, JCI gained 0.30% this week amid sustained net foreign buying of Rp1.07Tn, while foreign selling in the bond market subsided with small inflows of Rp0.91Tn. The sustained foreign buying led to outperformances of our top ETF picks XIHD (+0.88%), XIPI (+0.79%), XISR (+0.70%), and XIML (+0.51%), which all have well outperformed the JCI so far in 2024, as also during the prior two years in 2023 and 2022.

The Week Ahead – US Durable Goods Orders, PCE Price Index, Fed Speech

The key economic data to focus next week are US Durable Goods Orders (Tue 19:30), US CB Consumer Confidence (Tue 21:00), US GDP Growth Final Estimate and Initial Jobless Claims (Thu 19:30), US PCE Price Index (Fri 19:30), Fed Chair Powell Speech (Fri 22:30), and China NBS Manufacturing & Non Manufacturing PMIs (Sun 08:30).

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 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 XIML (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	39,475.90	1.97%	4.74%
S&P 500	5,234.18	2.29%	9.74%
Nasdaq	16,428.82	2.85%	9.44%
FTSE 100	7,930.92	2.63%	2.56%
DAX	18,205.94	1.50%	8.68%
Nikkei 225	40,888.43	5.63%	22.19%
Hang Seng	16,499.47	-1.32%	-3.21%
Shanghai	3,048.03	-0.22%	2.46%
MSCI World	3,428.12	1.94%	8.17%
MSCI Emerging Markets	1,039.32	0.44%	1.52%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	680.19	1.26%	-4.76%
Consumer Cyclical	827.22	0.24%	0.71%
Transportation	1,609.77	1.31%	0.52%
Industrials	1,114.60	1.04%	1.91%
Technology	3,590.75	-0.73%	-19.05%
Infrastructures	1,585.78	-0.01%	1.00%
Financials	1,515.63	0.45%	3.93%
Consumer Non-Cyclicals	720.14	1.54%	-0.31%
Healthcare	1,361.20	2.98%	-1.09%
JCI	7,350.15	0.30%	1.06%
Energy	2,134.95	0.66%	1.62%
Basic Materials	1,291.41	1.82%	-1.23%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.60	-13 bps	35 bps
UST 10Y Yield	4.20	-10 bps	32 bps
Ind GB 10Y Yield	6.65	0 bps	17 bps
USDIDR	15,814.15	219.15	417.15
CDS Indo 5Y	71.37	2.93	1.15

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.07Tn	+16.20Tn
Government Bond Market (Rp)	+0.91Tn	-24.92Tn

Commodities	Last	1W	YTD
WTI	80.63	-0.51%	12.53%
Brent	85.58	0.28%	11.09%
CPO (Malaysia)	4,188.00	7.16%	11.53%
Coal (New Castle)	128.25	-2.10%	-12.40%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,141.99	0.65%	4.78%
XIIT	IDX30	584.64	0.63%	4.78%
XIJI	JII	603.08	1.47%	-0.70%
XISI	SMInfra18	396.82	0.53%	6.59%
XISR	SriKehati	514.82	0.70%	6.54%
XIHD	IDXHIDIV20	712.21	0.88%	7.50%
XIPI	Pefindo I-Grade	261.89	0.79%	8.30%
XIML	MSCI Indo Large Cap	320.41	0.51%	6.06%
XIID	IDX30	560.87	0.53%	3.80%
XIFE	FTSE ESG Indonesia	124.03	0.35%	4.52%
XIIC	Consumer Related	1,057.87	1.02%	3.71%
XIIF	Rate Sensitive	569.80	1.38%	7.62%
XISC	BUMN Stocks	792.40	1.84%	10.15%
XISB	Sovereign Bonds	498.71	0.13%	-0.04%

Conventional				
RDMP	Equity	939.72	0.59%	5.49%
RPCF	Balanced	2,806.95	0.50%	5.58%
RDPCDA	Balanced	1,021.81	0.37%	3.12%
RDPCDB	Balanced	1,016.09	0.34%	3.22%
RDPO 2	Fixed Income	1,089.49	-0.25%	0.15%
RDPD 2	Money Market	1,459.82	0.09%	1.07%

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	21.6	56.2	10.4	8.5	3.32	14.6	4.2	1.14
2 XIIT	20.7	57.7	10.0	9.0	2.64	14.3	4.4	1.07
3 XISC	20.8	41.9	5.4	12.7	19.12	13.7	5.4	1.33
4 XISR	29.7	58.6	5.4	4.0	2.31	15.0	4.7	1.11
5 XIIF	17.5	50.7	8.5	6.9	16.36	14.5	4.7	1.29
6 XISI	42.2	28.5	13.9	13.4	2.00	12.9	5.5	1.04
7 XIPI	16.0	66.2	12.0	3.0	2.75	18.2	3.8	1.18
8 XIIC	27.5	33.7	21.6	3.2	14.13	15.5	4.2	1.18
9 XIHD	21.5	58.6	4.3	13.3	2.36	12.5	5.1	1.12
10 XIJI	38.5	14.4	22.8	21.1	3.22	13.2	3.5	1.10
11 XIML	13.5	81.2	0.0	0.0	5.20	14.4	4.8	1.11
12 XIID	20.7	58.2	10.0	9.0	2.13	15.8	4.4	1.07
13 XIFE	23.9	64.6	5.0	3.9	2.48	13.4	4.6	1.14
Index								
IDX80	31.0	43.6	14.1	11.2		13.1	4.2	
JCI	24.2	39.9	14.5	12.9		14.3	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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