

**Inflation moderation, weaker manufacturing activity boosted US stocks**

US stock indexes led developed markets equities to new highs, continuing their bullish momentum of the past four months, and well outperforming emerging markets equities so far in 2024 (ytd: +6.15% vs. +0.09% in US dollar terms). This week's gains were driven by moderating inflation and a weaker manufacturing activity in US. US core PCE Price Index, the Fed's preferred inflation metric, rose 0.4% MoM (2.8% YoY) in January, which is its lowest annual inflation rate since March 2021, albeit in line with expectations, while the headline PCE Price Index also decelerated to 2.4%, from 2.62% in December. This is encouraging news as US core consumer prices, a narrower inflation metric that was released earlier on 13<sup>th</sup> February, showed an uptrend to 0.39% MoM in January (prior month: 0.27%), although its annual rate of 3.9% was unchanged – in turn this had led to market correction that day. Elsewhere, Euro Area's annual core inflation rate also decelerated to 3.1% in February (prior month: 3.3%), its lowest since March 2022, although above expectations of 2.9%. Another positive news came from ISM Manufacturing PMI data for US, which fell to 47.8 in February (prior month: 49.1) – this was the 16<sup>th</sup> consecutive period of declines in US manufacturing activity, a positive factor for rate easing expectations. This development led to a decline in 10-yr US bond yields to 4.19% (-6bps), having risen to as high as 4.32% this week prior to the release of US inflation and PMI data. Meanwhile, market expectations on the timing of Fed's first rate cut in 2024 is unchanged on 12<sup>th</sup> June (53% probabilities, according to CME FedWatch Tool). Next week, market's focus will likely be on US non farm payrolls report, with expectations of jobs growth slowing to 200,000 in February, after blowout reports in each of the prior two months (January: 353,000; December: 333,000).

In Indonesia, JCI gained 0.23% this week amid a net foreign selling of Rp2.4Tn while the domestic bond market reversed to net inflow of Rp1Tn after larger net outflows of Rp4.05Tn in the prior week. This week's foreign selling led to underperformances of our top ETF picks such as XISR (-0.57%), XIHL (-0.52%), XIHD (-0.31%) and XIPI (-0.19%). However, these four ETFs still well outperform the JCI so far in 2024, as also during the prior two years in 2023 and 2022.

**The Week Ahead – Fed Chair Powell Testimony, US Jobs Report**

The key economic data to focus next week are China Caixin Services PMI (Tue 08:45), EU PPI Inflation (Tue 17:00), US ISM Services PMI & Factory Orders (Tue 22:00), US Fed Chair Powell Testimony (Wed 22:00), ECB Interest Rate Decision (Thu 20:15), US Non Farm Payrolls and Unemployment Rate (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 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 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	39,087.38	-0.11%	3.71%
S&P 500	5,137.08	0.95%	7.70%
Nasdaq	16,274.94	1.74%	8.42%
FTSE 100	7,682.50	-0.31%	-0.66%
DAX	17,735.00	1.81%	5.87%
Nikkei 225	39,940.00	2.15%	19.35%
Hang Seng	16,589.44	-0.82%	-2.69%
Shanghai	3,027.02	0.74%	1.75%
MSCI World	3,364.04	0.90%	6.15%
MSCI Emerging Markets	1,024.68	-0.35%	0.09%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	690.84	-0.88%	-3.27%
Consumer Cyclical	847.74	-0.91%	3.20%
Transportation	1,564.32	-0.88%	-2.32%
Industrials	1,103.77	1.12%	0.92%
Technology	3,679.23	-4.69%	-17.05%
Infrastructures	1,610.26	2.32%	2.56%
Financials	1,516.63	0.21%	4.00%
Consumer Non-Cyclicals	710.20	0.85%	-1.69%
Healthcare	1,318.64	-2.35%	-4.18%
JCI	7,311.91	0.23%	0.54%
Energy	2,109.97	0.32%	0.43%
Basic Materials	1,257.05	0.74%	-3.86%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.16	-53 bps	-9 bps
UST 10Y Yield	4.19	-6 bps	31 bps
Ind GB 10Y Yield	6.63	6 bps	15 bps
USDIDR	15,701.95	106.95	304.95
CDS Indo 5Y	69.76	-3.86	-1.82

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.4Tn	+12.65Tn
Government Bond Market (Rp)	+1.00Tn	-5.69Tn

Commodities	Last	1W	YTD
WTI	79.97	4.55%	11.61%
Brent	83.39	2.17%	8.24%
CPO (Malaysia)	3,966.00	2.83%	5.62%
Coal (New Castle)	131.00	10.59%	-10.52%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,114.67	-0.54%	2.27%
XIIT	IDX30	568.40	-0.47%	1.87%
XIJI	JII	586.93	-0.55%	-3.36%
XISI	SMinfra18	392.67	0.90%	5.48%
XISR	SriKehati	504.94	-0.57%	4.50%
XIHD	IDXHIDIV20	690.45	-0.31%	4.21%
XIPI	Pefindo I-Grade	253.06	-0.19%	4.65%
XIHL	MSCI Indo Large Cap	313.40	-0.52%	3.74%
XIID	IDX30	546.91	-0.58%	1.21%
XIFE	FTSE ESG Indonesia	121.60	-0.59%	2.47%
XIIC	Consumer Related	1,045.45	0.45%	2.49%
XIIF	Rate Sensitive	558.21	0.18%	5.43%
XISC	BUMN Stocks	755.52	-0.99%	5.02%
XISB	Sovereign Bonds	498.78	-0.15%	-0.02%

Conventional				
RDMP	Equity	925.85	0.10%	3.94%
RPCF	Balanced	2,747.61	-0.37%	3.35%
RDPCDA	Balanced	1,016.63	-0.16%	2.60%
RDPCDB	Balanced	1,006.91	-0.20%	2.29%
RDPO 2	Fixed Income	1,089.95	0.12%	0.19%
RDP 2	Money Market	1,455.85	0.10%	0.79%

## Summary of Investment Characteristics &amp; 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. Cyclicals	Commodities	Cash	2023F	2023F	
1 RLQ45	22.2	56.9	10.6	8.2	2.16	15.4	4.0	1.14
2 XIIT	21.3	58.8	10.0	8.7	1.19	14.2	4.5	1.07
3 XISC	20.6	42.1	5.9	11.9	19.51	13.5	5.4	1.33
4 XISR	30.7	59.2	5.8	3.7	0.51	14.0	4.7	1.11
5 XIIF	18.1	49.8	8.8	6.6	16.63	14.3	4.7	1.29
6 XISI	42.5	28.8	14.8	13.0	0.84	12.9	5.5	1.04
7 XIPI	16.7	67.9	11.6	3.0	0.82	17.7	3.9	1.18
8 XIIC	28.2	33.7	21.6	3.0	13.53	15.3	4.2	1.18
9 XIHD	22.5	59.8	4.2	12.7	0.85	12.3	5.1	1.12
10 XIJI	39.6	14.2	22.5	20.3	3.37	12.6	3.6	1.10
11 XIML	14.0	82.3	0.0	0.0	3.62	14.2	4.9	1.11
12 XIID	21.4	59.0	10.0	8.7	0.87	15.7	4.5	1.07
13 XIFE	22.3	66.3	6.8	4.3	0.26	14.0	4.5	1.14
<b>Index</b>								
IDX80	31.4	43.7	14.2	10.6		12.9	4.2	
JCI	24.2	39.8	14.4	12.5		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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