

**US inflation relief and weak retail sales are good news for stocks & bonds**

US stocks rebound continues for the fourth week, driving up key stock indexes (DJIA, S&P500, Nasdaq), and also global markets, to all-time highs. This week's market driver was Wednesday's release of US consumer prices inflation data for April, which came in at or slightly below expectations, but more importantly, these results were in contrast to hotter-than-expected data over the preceding three months, from January to March. Headline CPI rose 0.3% in April (March: 0.4%), below expectations of 0.4%, while the core inflation rate of 0.3% MoM (3.6% YoY) came as expected. Market's renewed optimism on inflation data was already evident in the previous day, when data on producer prices inflation turned out to be above expectations (core PPI of 0.5% MoM vs. 0.2% expected) but both US equities and bond markets nevertheless still reacted positively. On the back of this April inflation relief, 10-year US Treasury yields eased 10bps to 4.35% although the yields climbed back to 4.42% (-7bps) by end of the week. Market expectations on the Fed's easing cycle is largely unchanged, with only one rate cut still expected in 2024, although the probability of two rate cuts has increased compared to a month earlier. Meanwhile, US April retail sales growth (0% MoM; 3% YoY) was weaker than market expected but this was also viewed positively as market seems looking forward for slowing economy to help lower inflation pressure. Elsewhere, China announced measures to help its struggling property sector by providing US\$42Bn of loans to support SOEs to buy unsold apartments, reducing minimum downpayment for mortgages and removing the floor on interest rates for first and second homes. In the week ahead, global market's focus will likely be on release of FOMC Minutes from Fed's meeting on May 1, 2024, while in Indonesia, investors' attention will be on BI Rate Decision and the Q1 2024 Current Account Balance.

In Indonesia, the JCI gained 3.22% this week amid diminishing foreign selling of Rp0.51Tn, after huge net outflows totalling Rp41Tn during the month of April, while net foreign selling in the bond market increased to Rp6.32Tn this week. In turn, this led to NAV recoveries for our ETF picks XIHD (+3.26%), XIPI (+5.86%), XISR (+4.15%), and XIML (+4.43%) this week. However, most of our ETF picks above (except XIPI) still underperformed the JCI so far in 2024 due to recent foreign selling, thus reversing their outperformances during the prior two years in 2023 and 2022.

**The Week Ahead – BI Rate Decision, US FOMC Minutes, Fed Speeches**

The key economic data to focus next week are Indonesia Current Account (Mon 10:00), BI Interest Rate Decision (Wed 14:30), US FOMC Minutes (Thu 01:00), US Initial Jobless Claims (Thu 19:30), US S&P Global Manufacturing & Services PMI (Thu 20:45), US Durable Goods Orders (Fri 19:30).

**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, although the Fed Fund's rate is now already at its peak, market expectations of Fed rate cuts in 2024 have been scaled back to just one time this year, from previous expectations of three rate cuts, due to sticky inflation problem. As such, we also lower our 2024 JCI target to 7,400 (from 7,800) as we shift our 7,800 JCI target to 2025.

**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 8-10% for our ETF picks in 2024 - we expect this to come from our JCI target 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	40,003.59	1.24%	6.14%
S&P 500	5,303.27	1.54%	11.18%
Nasdaq	16,685.97	2.11%	11.16%
FTSE 100	8,420.26	-0.16%	8.88%
DAX	18,707.28	-0.35%	11.67%
Nikkei 225	38,766.50	1.41%	15.84%
Hang Seng	19,553.61	3.11%	14.70%
Shanghai	3,154.03	-0.02%	6.02%
MSCI World	3,472.52	1.54%	9.57%
MSCI Emerging Markets	1,099.79	2.63%	7.43%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	637.55	2.60%	-10.73%
Consumer Cyclical	755.58	0.83%	-8.02%
Transportation	1,320.74	2.15%	-17.53%
Industrials	1,033.40	-0.67%	-5.52%
Technology	3,440.91	2.07%	-22.43%
Infrastructures	1,629.32	0.75%	3.78%
Financials	1,414.09	2.80%	-3.03%
Consumer Non-Cyclicals	701.58	1.30%	-2.88%
Healthcare	1,427.76	0.75%	3.75%
JCI	7,317.24	3.22%	0.61%
Energy	2,234.17	0.20%	6.35%
Basic Materials	1,431.88	6.55%	9.52%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.83	-4 bps	58 bps
UST 10Y Yield	4.42	-7 bps	54 bps
Ind GB 10Y Yield	6.80	-17 bps	32 bps
USDIDR	15,964.50	-90.50	567.50
CDS Indo 5Y	75.99	3.76	6.71

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-512.6Bn	-6.95Tn
Government Bond Market (Rp)	-6.32Tn	-51.01Tn

Commodities	Last	1W	YTD
WTI	80.00	2.22%	11.65%
Brent	83.96	1.41%	8.98%
CPO (Malaysia)	3,890.00	2.34%	6.58%
Coal (New Castle)	142.15	-1.56%	-2.90%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,066.42	3.84%	-2.16%
XIIT	IDX30	544.73	3.66%	-2.37%
XIJI	JII	610.71	2.59%	0.55%
XISI	SMinfra18	353.49	1.17%	-5.05%
XISR	SriKehati	464.10	4.15%	-3.95%
XIHD	IDXHIDIV20	656.43	3.26%	-0.92%
XIPI	Pefindo I-Grade	249.51	5.86%	3.18%
XIML	MSCI Indo Large Cap	291.14	4.43%	-3.62%
XIID	IDX30	515.16	3.44%	-4.66%
XIFE	FTSE ESG Indonesia	115.50	3.83%	-2.67%
XIIC	Consumer Related	996.89	2.32%	-2.27%
XIIF	Rate Sensitive	529.15	3.18%	-0.06%
XISC	BUMN Stocks	733.18	2.34%	1.92%
XISB	Sovereign Bonds	499.43	0.64%	0.11%

Conventional				
RDMP	Equity	868.96	2.61%	-2.45%
RPCF	Balanced	2,652.03	2.48%	-0.24%
RDPEDA*	Balanced	983.71	1.89%	-0.73%
RDPCEB	Balanced	970.67	1.85%	-1.39%
RDPO 2*	Fixed Income	1,124.01	0.09%	1.89%
RDPU 2	Money Market	1,469.64	0.11%	1.75%

\*Reinvested Dividend

## 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	19.4	52.3	10.2	8.8	2.30	13.0	4.6	1.14
2 XIIT	20.4	56.0	11.5	10.4	1.73	12.6	4.8	1.07
3 XISC	23.1	40.8	4.1	14.0	17.95	11.1	6.0	1.33
4 XISR	29.3	59.6	5.0	4.7	1.42	12.9	5.0	1.11
5 XIIF	18.9	51.2	9.9	7.3	12.68	13.1	5.1	1.29
6 XISI	43.2	27.4	13.7	13.2	2.44	10.5	6.2	1.04
7 XIPI	13.8	63.6	17.9	3.6	1.13	16.5	3.7	1.18
8 XIIC	27.7	35.1	23.9	3.6	9.69	13.2	4.5	1.18
9 XIHD	23.1	55.5	5.1	14.0	2.24	11.2	5.6	1.12
10 XIJI	34.8	12.7	28.4	21.2	3.01	15.1	3.3	1.10
11 XIIML	12.3	82.2	0.0	0.0	5.55	12.6	5.3	1.11
12 XIID	17.6	57.8	11.8	10.8	2.00	13.6	4.8	1.07
13 XIFE	23.7	64.6	5.4	4.5	1.72	11.9	5.0	1.14
<b>Index</b>								
IDX80	30.5	41.3	15.8	12.3		11.6	4.6	
JCI	22.8	35.2	16.4	13.1		12.3	4.6	

**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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