

US economy slowed amid sticky inflation but Q1 earnings were revised up

Global stocks break a three-week string of losses amid signs of a weakening US economy while Q1 earnings exceeded expectations. The US stocks rebound in the beginning of the week can be attributed to economic data revealing weaker than expected US manufacturing and services activities (S&P Global PMI data), which were positively received by markets as it reduce pressures on inflation. In addition, about 80% of the Q1 earnings of S&P500 companies surprised on the upside, particularly for the big tech companies – in turn, this led to 3.7% annual growth projected for Q1 overall earnings of the S&P500, higher than the 0.5% growth projected just a week earlier. This week's stocks rebound was despite a weaker-than-expected US GDP growth of 1.6% annualized rate for Q1 2024, which was a marked slowdown from 3.4% in Q4 2023, well below consensus forecasts of 2.5%. Meanwhile, inflation for the first quarter has also increased as core personal consumption expenditure (PCE) price index rose by an annualized rate of 3.7% in Q1 2024, from a 2% rise in the fourth quarter of 2023, and was also above expectations of 3.4% and the Fed's 2% long-term inflation target. However, market concerns over the slow progress in controlling inflation was somewhat reduced when the monthly PCE price index data was released on Friday. The core PCE price index, which is the Fed's preferred metric to measure inflation, rose at 0.3% MoM and 2.8% YoY in March, unchanged from the prior month, which almost matched consensus expectations of 0.3% MoM; 2.6% YoY. Friday's inflation data led to a slight easing in bond yields although 10-yr UST yields still increased by 6bps to 4.66% this week. In the week ahead, market focus will likely be on Fed meeting and jobs growth data (non farm payrolls), which is expected to slow to 243,000 in April vs. 303,000 in March.

In Indonesia, JCI corrected 0.72% this week amid continuing net foreign selling of Rp4.84Tn while outflows of Rp4.86Tn was recorded in bond market. The net foreign selling led to steeper NAV declines for our top ETF picks XIHD (-2.34%), XIPI (-2.14%), XISR (-2.02%), XIML (-1.47%), although our top ETF picks XIHD and XIPI still outperformed the JCI so far in 2024, as also during the prior two years in 2023 and 2022.

The Week Ahead – Indonesia Inflation, Fed Rate Decision, US Jobs Reports

The key economic data to focus next week are China NBS PMI data (Tue 08:30), China Caixin PMI data (Tue 08:45), EU GDP Growth & Inflation Rate (Tue 16:00), US ISM Manufacturing PMI (Wed 21:00), Fed Interest Rate Decision (Thu 01:30), Indonesia Inflation Rate (Thu 11:00), US Initial Jobless Claims (Thu 19:30), US Factory Orders (Thu 21:00), US Non Farm Payrolls, Average Hourly Earnings and Unemployment Rate (Fri 19:30), US ISM Services PMI (Fri 21:00).

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, 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	38,239.66	0.67%	1.46%
S&P 500	5,099.96	2.67%	6.92%
Nasdaq	15,927.90	4.23%	6.11%
FTSE 100	8,139.83	3.09%	5.26%
DAX	18,161.01	2.39%	8.41%
Nikkei 225	37,934.76	2.34%	13.36%
Hang Seng	17,651.15	8.80%	3.54%
Shanghai	3,088.64	0.76%	3.82%
MSCI World	3,335.08	2.44%	5.23%
MSCI Emerging Markets	1,041.52	3.72%	1.74%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	619.58	1.29%	-13.25%
Consumer Cyclical	777.99	-0.04%	-5.29%
Transportation	1,321.36	-2.52%	-17.49%
Industrials	1,055.24	-1.06%	-3.52%
Technology	3,322.67	2.87%	-25.09%
Infrastructures	1,603.19	1.41%	2.11%
Financials	1,428.64	0.05%	-2.04%
Consumer Non-Cyclicals	696.97	2.68%	-3.52%
Healthcare	1,349.48	1.46%	-1.94%
JCI	7,036.08	-0.72%	-3.25%
Energy	2,167.15	-0.81%	3.16%
Basic Materials	1,325.64	-1.39%	1.39%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.99	2 bps	74 bps
UST 10Y Yield	4.66	6 bps	78 bps
Ind GB 10Y Yield	7.21	55 bps	73 bps
USDIDR	16,210.00	365.00	813.00
CDS Indo 5Y	79.68	-1.50	9.46

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-4.84Tn	-0.75Tn
Government Bond Market (Rp)	-4.86Tn	-47.84Tn

Commodities	Last	1W	YTD
WTI	83.72	0.70%	16.85%
Brent	82.29	-5.83%	6.82%
CPO (Malaysia)	3,896.00	-0.81%	3.75%
Coal (New Castle)	134.50	-5.11%	-8.13%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,035.56	-2.43%	-4.99%
XIIT	IDX30	528.68	-2.45%	-5.25%
XIJI	JII	571.10	-1.74%	-5.97%
XISI	SMIInfra18	353.56	-3.65%	-5.03%
XISR	SriKehati	458.25	-2.02%	-5.16%
XIHD	IDXHIDIV20	643.61	-2.34%	-2.86%
XIPI	Pefindo I-Grade	239.86	-2.14%	-0.81%
XIML	MSCI Indo Large Cap	287.02	-1.47%	-4.99%
XIID	IDX30	502.43	-2.60%	-7.02%
XIFE	FTSE ESG Indonesia	112.72	-1.37%	-5.01%
XIIC	Consumer Related	978.02	-1.06%	-4.12%
XIIF	Rate Sensitive	519.26	-2.01%	-1.92%
XISC	BUMN Stocks	720.04	-4.13%	0.09%
XISB	Sovereign Bonds	488.51	-0.38%	-2.08%

Conventional	Last	1W	YTD	
RDMP	Equity	855.26	-2.41%	-3.99%
RPCF	Balanced	2,615.45	-1.64%	-1.62%
RDPCDA	Balanced	966.77	-1.04%	-2.44%
RDPCDB	Balanced	959.72	-1.07%	-2.51%
RDPO 2	Fixed Income	1,121.75	0.08%	1.68%
RDPU 2	Money Market	1,465.94	0.08%	1.49%

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	20.9	56.8	10.9	9.6	1.78	13.3	4.8	1.14
2 XIIT	19.9	58.8	10.5	10.0	0.82	12.9	5.1	1.07
3 XISC	20.6	39.8	4.7	13.7	21.20	11.7	6.3	1.33
4 XISR	29.4	60.2	5.2	4.5	0.69	13.4	5.2	1.11
5 XIIF	17.4	46.8	9.3	7.4	19.13	13.0	5.3	1.29
6 XISI	42.9	27.9	13.7	15.0	0.53	11.2	6.4	1.04
7 XIPI	14.6	66.0	15.3	3.5	0.49	17.1	4.1	1.18
8 XIIC	27.3	32.7	22.3	3.4	14.24	14.0	4.7	1.18
9 XIHD	20.5	59.7	4.8	14.6	0.52	11.2	5.8	1.12
10 XIJI	36.0	13.8	24.8	22.1	3.30	13.1	3.7	1.10
11 XIML	12.5	83.0	0.0	0.0	4.46	12.8	5.5	1.11
12 XIID	19.9	58.8	10.5	10.0	0.76	14.3	5.1	1.07
13 XIFE	22.9	64.5	5.0	4.4	3.26	12.1	5.2	1.14
Index								
IDX80	30.7	42.5	14.6	12.2		11.0	4.6	
JCI	23.1	36.6	15.6	13.4		11.8	4.7	

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

DISCLAIMER

© Copyright 2024 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE