

S&P500 earnings upgraded to grow 10% in 2024, US jobless claims surged

US stocks rebound continues for the third week with S&P500 rising to just 0.6% below its all-time high reached at the end of March and gained 9.49% during the year-to-date. As such, the Developed Markets (MSCI World) outperformed Emerging Markets (MSCI EM) equities so far in 2024, due to the combination of stronger US dollar and declining stock markets such as in Indonesia (and Brazil) on the back of huge foreign outflows since April. This week's gains in US stocks were driven by analysts earnings upgrades, as the current first-quarter earnings season nears an end, with the S&P500 earnings growth of 5.1% in Q1 2024 and is forecast to grow at 10.1% for FY 2024. Economic data calendar was light this week but two data releases signalled a softening of the US labor market and the economy, with both perceived positively for the efforts to control stubborn US inflation rate. The weekly US jobless claims surged to 231,000 (+22,000), the highest since August 2023, and is above market expectations of 210,000. This hike reversed four consecutive downward surprises in the jobless claims figures. Meanwhile, The University of Michigan's Consumer Sentiment Index fell to 67.4 in May, from 77.2 in April, which is the lowest in six months and missing market expectations of 76 – this is due to rising consumer worries about the direction of inflation, unemployment and interest rates. In the week ahead, investors focus will likely be on the releases of US April inflation data for both consumers (CPI) and producers (PPI) prices. Market expectations are for the core consumer inflation rate to ease to 0.3% MoM / 3.6% YoY in April, from 0.4% / 3.8% in March, while the producer prices inflation to remain unchanged at 0.2% MoM.

In Indonesia, the JCI lost 2.01% this week amid accelerating net foreign selling of Rp6.21Tn while the outflows in the bond market eased slightly to Rp2.84Tn. The huge net foreign selling from Indonesia's stock market in April (Rp41Tn) appears to be continuing into May and this have led to underperformances of our ETF picks XIHD (-4.17%), XIPI (-4.46%), XISR (-5.25%), and XIML (-5.14%) this week because our ETFs comprises mainly of the big cap stocks owned by foreign investors. However, our four top ETF picks above well outperformed the JCI during the prior two years in 2023 and 2022.

The Week Ahead – US PPI & CPI Inflation, US Retail Sales, Fed Speeches

The key economic data to focus next week are Indonesia Consumer Confidence (Mon 10:00), US Consumer Inflation Expectations (Mon 22:00), Indonesia Retail Sales (Tue 10:00), US PPI Inflation (Tue 19:30), Fed Chair Powell Speech (Tue 21:00), Indonesia Trade Balance (Wed 11:00), US CPI Inflation & Retail Sales (Wed 19:30), US Jobless Claims (Thu 19:30), China Retail Sales (Fri 09:00), .

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	39,512.84	2.16%	4.84%
S&P 500	5,222.68	1.85%	9.49%
Nasdaq	16,340.87	1.14%	8.86%
FTSE 100	8,433.76	2.68%	9.06%
DAX	18,772.85	4.28%	12.07%
Nikkei 225	38,229.11	-0.02%	14.24%
Hang Seng	18,963.68	2.64%	11.24%
Shanghai	3,154.55	1.60%	6.04%
MSCI World	3,419.92	1.74%	7.91%
MSCI Emerging Markets	1,071.64	0.96%	4.68%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	621.37	-0.87%	-13.00%
Consumer Cyclical	749.36	-1.95%	-8.77%
Transportation	1,292.94	-2.75%	-19.27%
Industrials	1,040.41	-2.12%	-4.88%
Technology	3,371.24	0.36%	-24.00%
Infrastructures	1,617.27	-0.24%	3.01%
Financials	1,375.64	-4.02%	-5.67%
Consumer Non-Cyclicals	692.54	-0.15%	-4.13%
Healthcare	1,417.14	1.99%	2.98%
JCI	7,088.80	-2.01%	-2.53%
Energy	2,229.74	0.03%	6.13%
Basic Materials	1,343.90	-0.19%	2.79%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.87	6 bps	62 bps
UST 10Y Yield	4.50	-1 bps	62 bps
Ind GB 10Y Yield	6.97	-30 bps	49 bps
USDIDR	16,055.00	-207.85	658.00
CDS Indo 5Y	72.23	-3.48	2.95

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-6.21Tn	-6.43Tn
Government Bond Market (Rp)	-2.84Tn	-50.55Tn

Commodities	Last	1W	YTD
WTI	78.20	0.12%	9.14%
Brent	82.73	-0.28%	7.39%
CPO (Malaysia)	3,810.00	-0.88%	4.38%
Coal (New Castle)	144.00	-0.79%	-1.64%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,027.03	-3.76%	-5.77%
XIIT	IDX30	525.49	-3.68%	-5.82%
XIJ	JII	595.32	0.42%	-1.98%
XISI	SMIInfra18	349.41	-4.20%	-6.14%
XISR	SriKehati	445.60	-5.25%	-7.78%
XIHD	IDXHIDIV20	635.72	-4.17%	-4.05%
XIPI	Pefindo I-Grade	235.69	-4.46%	-2.53%
XIML	MSCI Indo Large Cap	278.79	-5.14%	-7.71%
XIID	IDX30	498.02	-3.85%	-7.83%
XIFE	FTSE ESG Indonesia	111.24	-3.95%	-6.26%
XIIC	Consumer Related	974.31	-2.70%	-4.49%
XIIF	Rate Sensitive	512.82	-3.88%	-3.14%
XISC	BUMN Stocks	716.45	-3.63%	-0.41%
XISB	Sovereign Bonds	496.25	1.81%	-0.53%

Conventional				
RDMP	Equity	846.83	-3.21%	-4.93%
RPCF	Balanced	2,587.82	-2.81%	-2.66%
RDPCDA	Balanced	960.64	-1.68%	-3.05%
RDPCDB	Balanced	953.08	-1.71%	-3.18%
RDPO 2	Fixed Income	1,091.96	0.06%	0.38%
RDPDU 2	Money Market	1,467.99	0.10%	1.64%

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. Cyclicals	Commodities	Cash	2023F	2023F	
1 RLQ45	20.1	52.2	10.2	9.1	8.46	13.2	4.8	1.14
2 XIIT	21.2	55.9	11.4	10.7	0.89	12.7	5.0	1.07
3 XISC	23.9	38.2	4.6	14.0	19.36	11.3	6.3	1.33
4 XISR	30.7	58.6	5.2	4.7	0.69	13.0	5.3	1.11
5 XIIF	19.7	48.3	9.6	7.5	14.89	12.8	5.3	1.29
6 XISI	44.6	26.2	14.6	13.2	1.32	10.7	6.5	1.04
7 XIPI	15.0	64.0	16.8	3.7	0.46	16.9	4.0	1.18
8 XIIC	28.4	33.0	23.0	3.7	11.80	13.7	4.7	1.18
9 XIHD	24.3	55.4	5.1	14.5	0.73	10.9	5.8	1.12
10 XIJI	35.6	13.8	27.4	21.5	1.60	13.7	3.5	1.10
11 XIIML	13.1	82.6	0.0	0.0	4.38	12.5	5.5	1.11
12 XIID	21.3	56.1	11.4	10.7	0.53	14.1	5.0	1.07
13 XIFE	24.6	64.4	5.2	4.6	1.10	12.0	5.2	1.14
Index								
IDX80	31.4	40.9	15.2	12.5		11.4	4.7	
JCI	23.6	35.1	16.0	13.5		12.0	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

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