

US jobs market cooling down, earnings picking up, Fed rules out rate hike

US stocks rose for the second week, recovering much of the correction during a three week period in April, despite this week's choppy market. Stocks initially tumbled on Tuesday after US employment cost index rose more than expected by 1.2% QoQ in Q1 2024 (Q4: 0.9%), the fastest in a year, but stocks recovered on Thursday and Friday. The key drivers for the rebound were encouraging Fed statement, earnings upgrades, positive news from Apple's buybacks and Tesla's regulatory approval in China, and signs of cooling jobs market. During his press conference after Fed meeting, Fed Chair Powell pushed back against stagflation worries and stated there is no need to increase rates despite a lack of further progress in bringing inflation closer to the Fed's 2% long-term target. Inflation worries also eased after Friday's nonfarm payrolls data showed US jobs growth of 175,000 in April, less than 243,000 expected, and below the monthly average in the prior 12 months. In addition, the average hourly wage growth slowed to 0.2% MoM in April (or 3.9% YoY), from 0.3% / 4.1% rises in March, also slower than expected. On the back of this data, 10-yr US Treasury yields eased to 4.5% (-15bps) this week, while the probabilities for at least one Fed rate cut in 2024, expected during the September Fed meeting, has also increased to 67% (from 57% a week earlier). Meanwhile, stronger earnings from the big tech companies (eg. Apple) have led to an upward revision in analysts forecasts for the S&P500 earnings growth to 5.0% YoY in Q1 2024, from 3.5% a week earlier. Elsewhere in Europe, Eurozone GDP growth of 0.3% QoQ in Q1 2024 (Q4 2023: -0.1%) is also better than consensus expectation of +0.1% growth while Eurozone core inflation decelerated to 2.7% YoY in April (March: 2.9%), albeit it was slightly above forecasts of 2.6%.

In Indonesia, JCI recovered 1.40% this week amid continuing net foreign selling of Rp2.85Tn while stronger outflows of Rp4.92Tn was recorded in bond market. The net foreign selling amid equity market rebound led to mixed performances of our top ETF picks XIHD (+0.07%), XIPI (-0.72%), XISR (-1.14%), XIML (-0.45%). Due to the huge net foreign selling totalling Rp41Tn during the month of April, most of our four ETF picks (except XIPI) underperformed the JCI so far in 2024, after outperforming during the prior two years in 2023 and 2022.

The Week Ahead – Indonesia GDP Growth & Auto Sales, Fed Speeches

The key economic data to focus next week are China Caixin Services PMI (Mon 08:45), Indonesia GDP Growth Rate (Mon 11:00), Indonesia Auto Sales (Wed), US Initial Jobless Claims (Thu 19:30), US Michigan Consumer Sentiment and Expectations Survey (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	38,675.68	1.14%	2.62%
S&P 500	5,127.79	0.55%	7.50%
Nasdaq	16,156.33	1.43%	7.63%
FTSE 100	8,213.49	0.90%	6.21%
DAX	17,993.69	-0.92%	7.41%
Nikkei 225	38,236.07	0.79%	14.26%
Hang Seng	18,475.92	4.67%	8.38%
Shanghai	3,104.82	0.52%	4.37%
MSCI World	3,361.41	0.79%	6.07%
MSCI Emerging Markets	1,061.45	1.91%	3.68%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	617.35	-0.36%	-13.56%
Consumer Cyclical	753.18	-3.19%	-8.31%
Transportation	1,298.73	-1.71%	-18.91%
Industrials	1,061.54	0.60%	-2.95%
Technology	3,364.09	1.25%	-24.16%
Infrastructures	1,617.93	0.92%	3.05%
Financials	1,395.14	-2.34%	-4.33%
Consumer Non-Cyclicals	691.68	-0.76%	-4.25%
Healthcare	1,415.02	4.86%	2.82%
JCI	7,134.72	1.40%	-1.90%
Energy	2,199.06	1.47%	4.67%
Basic Materials	1,316.08	-0.72%	0.66%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.81	-19 bps	56 bps
UST 10Y Yield	4.51	-15 bps	63 bps
Ind GB 10Y Yield	6.99	-22 bps	51 bps
USDIDR	15,968.70	-241.30	571.70
CDS Indo 5Y	75.99	-3.69	5.77

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.85Tn	-3.59Tn
Government Bond Market (Rp)	-4.92Tn	-52.76Tn

Commodities	Last	1W	YTD
WTI	77.99	-6.84%	8.85%
Brent	82.82	-7.46%	7.50%
CPO (Malaysia)	3,842.00	-1.39%	2.32%
Coal (New Castle)	145.60	8.25%	-0.55%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,037.35	0.17%	-4.82%
XIIT	IDX30	530.02	0.25%	-5.01%
XIJI	JII	592.79	3.80%	-2.40%
XISI	SMinfra18	352.39	-0.33%	-5.34%
XISR	SriKehati	453.03	-1.14%	-6.24%
XIHD	IDXHIDIV20	644.07	0.07%	-2.79%
XIPI	Pefindo I-Grade	238.13	-0.72%	-1.52%
XIML	MSCI Indo Large Cap	285.71	-0.45%	-5.42%
XIID	IDX30	502.95	0.10%	-6.92%
XIFE	FTSE ESG Indonesia	113.02	0.27%	-4.75%
XIIC	Consumer Related	979.79	0.18%	-3.95%
XIIF	Rate Sensitive	518.79	-0.09%	-2.01%
XISC	BUMN Stocks	717.82	-0.31%	-0.22%
XISB	Sovereign Bonds	495.56	1.44%	-0.67%

Conventional	Last	1W	YTD	
RDMP	Equity	852.91	-0.27%	-4.25%
RPCF	Balanced	2,607.40	-0.31%	-1.92%
RDPCDA	Balanced	970.99	-0.07%	-2.01%
RDPCDB	Balanced	958.76	-0.10%	-2.60%
RDPO 2	Fixed Income	1,122.57	0.07%	1.76%
RDPD 2	Money Market	1,467.14	0.08%	1.58%

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	52.7	10.1	8.8	8.33	13.3	4.7	1.14
2 XIIT	21.3	56.3	11.2	10.4	0.71	12.9	5.0	1.07
3 XISC	23.7	39.7	4.7	13.6	18.24	11.4	6.3	1.33
4 XISR	30.8	58.9	5.3	4.4	0.67	13.3	5.2	1.11
5 XIIF	19.8	48.7	9.5	7.4	14.55	13.0	5.2	1.29
6 XISI	44.6	26.1	14.7	13.9	0.59	10.9	6.4	1.04
7 XIPI	15.2	64.5	16.3	3.6	0.47	17.1	3.9	1.18
8 XIIC	28.6	33.4	22.7	3.5	11.77	14.0	4.6	1.18
9 XIHD	21.2	58.5	4.9	14.8	0.50	11.1	5.7	1.12
10 XIJI	36.5	14.3	24.6	21.5	3.14	13.7	3.6	1.10
11 XIIML	13.0	82.6	0.0	0.0	4.41	12.8	5.4	1.11
12 XIID	21.4	56.5	11.2	10.4	0.48	14.3	5.0	1.07
13 XIFE	23.8	63.6	5.1	4.4	3.15	12.2	5.1	1.14
Index								
IDX80	31.5	41.5	14.8	12.2		10.6	5.0	
JCI	23.5	35.5	15.7	13.3		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

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