

Cautious Fed official view, inflation stabilising in US but rising in Eurozone

Global equity markets correction continued for a second week amid uncertainty on the direction of inflation and interest rates, particularly in the US. In turn, this is reflected in the US stock and bond markets volatility this week. Minneapolis Fed President Neel Kashkari's statement on Tuesday that Fed is not ruling out interest rate increases, although its possibility is quite low, led to a 16bps rise in 10-yr US Treasury yield to 4.62% on Wednesday, before it eased to 4.50% after Friday's release of the US inflation data. The core PCE Price Index, which is the Fed's preferred inflation metric, rose by 0.2% MoM in April vs. 0.3% in March and February, below market expectations of a 0.3% rise, while the headline PCE inflation of 0.3% MoM and 2.7% YoY came as expected. Other economic data released during this week's light economic calendar came in roughly in line with market expectations. The signs of a stabilising US inflation in turn contributed to a rebound in US key stock indexes on Friday although they still declined for the week, particularly for the technology heavy Nasdaq Composite, which was impacted by Salesforce's weaker than expected Q1 revenues. Elsewhere, the pan-European Stoxx 600 Index corrected by 0.46% amid higher-than-expected Eurozone inflation, which raised uncertainty about policy easing by the ECB. The headline Eurozone inflation increased to 2.6% YoY in May, from 2.4% in each of the prior two months, and it was above consensus estimate of 2.5%, while the core inflation accelerated to 2.9% (from 2.7%). Next week, investors' focus will likely be on releases of US jobs reports such as JOLTS (Job Openings & Labor Turnover Survey), ADP Employment Change (private sector payroll growth), and the Nonfarm Payroll, which consensus expects to grow by 180,000 jobs in May vs. 175,000 in April.

In Indonesia, JCI fell by 3.48% amid accelerating net foreign selling to Rp4.63Tn, while the domestic bond market continued to benefit from large net inflows of Rp4.34Tn this week. Our top ETF picks declined by more or less in line with the JCI this week: XIHD (-3.68%), XIPI (-3.37%), XISR (-3.99%), and XIML (-3.13%), although they still well underperformed the market index so far in 2024, due to the substantial amount of equity outflows (-Rp13.37Tn) in the year-to-date.

The Week Ahead – Indonesia Inflation, China & US PMIs, US Jobs Reports

The key economic data to focus next week are Indonesia S&P Global Manufact. PMI (Mon 07:30), China Caixin Manufact. PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ISM Manufact. PMI (Mon 21:00), US JOLTS Job Openings, Factory Orders (Tue 21:00), China Caixin Services PMI (Wed 08:45), US ADP Employment Change (Wed 19:15), US ISM Services PMI (Wed 21:00), US Jobless Claims (Thu 19:30), US Non Farm Payrolls & Unemployment Rate (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	38,686.32	-0.98%	2.64%
S&P 500	5,277.51	-0.51%	10.64%
Nasdaq	16,735.02	-1.10%	11.48%
FTSE 100	8,275.38	-0.51%	7.01%
DAX	18,483.07	-1.12%	10.34%
Nikkei 225	38,495.50	-0.39%	15.03%
Hang Seng	18,079.61	-2.84%	6.06%
Shanghai	3,086.81	-0.07%	3.76%
MSCI World	3,445.17	-0.49%	8.71%
MSCI Emerging Markets	1,048.96	-3.14%	2.46%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	614.33	-2.76%	-13.98%
Consumer Cyclical	717.77	-2.81%	-12.62%
Transportation	1,268.34	-1.74%	-20.80%
Industrials	977.72	-4.56%	-10.61%
Technology	3,391.52	-1.67%	-23.54%
Infrastructures	1,503.49	-7.07%	-4.24%
Financials	1,353.12	-1.28%	-7.21%
Consumer Non-Cyclicals	690.55	-2.56%	-4.41%
Healthcare	1,372.74	-4.12%	-0.25%
JCI	6,970.74	-3.48%	-4.15%
Energy	2,306.60	0.61%	9.79%
Basic Materials	1,407.36	-1.47%	7.64%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.88	-7 bps	63 bps
UST 10Y Yield	4.50	4 bps	62 bps
Ind GB 10Y Yield	6.93	9 bps	45 bps
USDIDR	16,255.10	210.10	858.10
CDS Indo 5Y	75.99	5.23	6.71

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-4.63Tn	-13.37Tn
Government Bond Market (Rp)	4.34Tn	-34.71Tn

Commodities	Last	1W	YTD
WTI	77.18	-0.80%	7.72%
Brent	81.31	-1.03%	5.54%
CPO (Malaysia)	4,079.00	4.97%	12.99%
Coal (New Castle)	143.90	0.42%	-1.71%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,014.39	-2.50%	-6.93%
XIIT	IDX30	508.93	-3.83%	-8.79%
XIJI	JII	595.14	-2.74%	-2.01%
XISI	SMinfra18	333.80	-3.67%	-10.34%
XISR	SriKehati	431.70	-3.99%	-10.66%
XIHD	IDXHIDIV20	615.61	-3.68%	-7.08%
XIPI	Pefindo I-Grade	231.29	-3.37%	-4.36%
XIML	MSCI Indo Large Cap	271.72	-3.13%	-10.05%
XIID	IDX30	479.70	-3.94%	-11.22%
XIFE	FTSE ESG Indonesia	107.84	-3.69%	-9.12%
XIIC	Consumer Related	938.94	-3.47%	-7.95%
XIIF	Rate Sensitive	493.59	-3.81%	-6.77%
XISC	BUMN Stocks	690.88	-3.59%	-3.96%
XISB	Sovereign Bonds	498.00	-0.04%	-0.18%

Conventional	Last	1W	YTD	
RDMP	Equity	817.31	-3.59%	-8.25%
RPCF	Balanced	2,535.63	-2.33%	-4.62%
RDPDCA*	Balanced	947.22	-2.07%	-4.41%
RDPDCB	Balanced	934.03	-2.11%	-5.12%
RDPO 2*	Fixed Income	1,126.15	0.12%	2.08%
RDPU 2	Money Market	1,472.38	0.11%	1.94%

*Reinvested Dividend

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	19.9	49.8	9.8	9.0	2.73	12.2	4.8	1.14
2 XIIT	21.5	54.2	11.2	10.9	2.26	11.9	5.2	1.07
3 XISC	25.9	39.5	3.8	14.1	16.73	10.1	6.6	1.33
4 XISR	30.8	57.6	4.8	4.5	2.17	12.1	5.4	1.11
5 XIIF	19.5	49.5	9.7	7.6	13.77	12.1	5.6	1.29
6 XISI	44.0	25.6	13.8	14.0	2.62	9.6	6.7	1.04
7 XIPI	14.4	62.2	18.4	3.8	1.19	15.9	4.0	1.18
8 XIIC	29.0	35.0	25.8	3.7	6.37	12.4	4.9	1.18
9 XIHD	24.0	53.4	5.1	14.0	3.43	10.4	6.1	1.12
10 XIJI	33.0	11.6	11.5	21.2	22.78	14.8	3.3	1.10
11 XIIML	9.8	80.3	0.0	0.0	9.95	11.7	5.7	1.11
12 XIID	18.5	56.2	11.6	11.3	2.39	12.8	5.1	1.07
13 XIFE	24.8	63.4	5.2	4.8	1.80	11.2	5.3	1.14
Index								
IDX80	31.6	40.0	15.7	12.7		11.2	4.8	
JCI	23.2	33.9	16.6	13.8		11.7	4.9	

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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