

**AI leads the way, mixed inflation signals, US services sector remains strong**

US stock indexes, led by Nasdaq and S&P500, rebounded to record highs amid renewed enthusiasm on artificial intelligence, which drove shares of chipmaker NVIDIA to a 150% rise year to date. The top three largest US stocks by market capitalisation, Microsoft, Apple and NVIDIA, now account for 20% weighting of the S&P500 index. The strong US stocks rebound was despite this week's mixed economic data, which led to mixed inflation signals and continuing uncertainty on the inflation outlook. The Institute of Supply Management reported further contraction of US manufacturing activity in May (PMI of 48.7), but its gauge for services sector jumped to 53.8, its highest level in nine months, and well above consensus expectations. The US labor market data also gave conflicting signals as job openings declined to 8.06m in April (March: 8.35m), lower than expected, and job openings/unemployment ratio declined further to 1.24 vs. peak of 2.03 two years earlier. On the other hand, US nonfarm payroll growth of 272K jobs in May (April: 165K) was well above consensus expectations of 185K, reflecting strong labor demand from services sectors. In addition, average hourly wages grew by 0.4% MoM (4.1% YoY) in May vs. 0.2% in April, above expectations of 0.3%. The strong US wage growth, due to the strong services sectors, has been a key driver of core inflationary pressure, thus further complicating the outlook for potential interest rate cuts this year. The mixed inflation signals, in turn, led to bond market swings as the 10-year US Treasury yields initially eased 23bps to 4.28% amid weak economic data releases from ISM manufacturing PMI, the job openings data, and ADP private sector jobs growth, but yields rebounded to 4.43% on Friday after the strong nonfarm payroll growth. Elsewhere, the ECB cut interest rate by 25bps to 3.75% for the first time since 2019 (as expected), despite raising its inflation forecasts to 2.5% (from 2.3%) for 2024. Next week, investors will likely focus on Fed meeting, FOMC Projections & Fed Rate Path, and May inflation rates (consensus: 0.3% MoM; 3.5% YoY for core inflation).

In Indonesia, the JCI fell 1.04% amid continuing net foreign selling of Rp1.71Tn (vs. -Rp4.63tn in prior week), while the bond market reversed to net outflows of Rp0.70Tn this week. Our ETF picks outperformed JCI this week: XIHD (+3.27%), XIPI (+1.40%), XISR (+3.46%), XIML (+1.79%), after recent underperformances due to large equity outflows in the months of April and May.

**The Week Ahead – US Inflation Rate, Fed Rate Decision, FOMC Projections**

The key economic data to focus next week includes Indonesia Retail Sales (Tue 10:00), China Inflation Rate (Wed 08:30), US CPI Inflation Rate (Wed 19:30), US Fed Interest Rate Decision, FOMC Projections (Thu 01:00), US PPI Inflation Rate, Initial Jobless Claims (Thu 19:30), US Michigan Consumer Sentiment (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	38,798.99	0.29%	2.94%
S&P 500	5,346.99	1.32%	12.10%
Nasdaq	17,133.13	2.38%	14.13%
FTSE 100	8,245.37	-0.36%	6.62%
DAX	18,557.27	0.32%	10.78%
Nikkei 225	38,683.93	0.51%	15.60%
Hang Seng	18,366.95	1.59%	7.74%
Shanghai	3,051.28	-1.15%	2.57%
MSCI World	3,478.70	0.97%	9.77%
MSCI Emerging Markets	1,073.14	2.31%	4.83%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	615.96	0.27%	-13.75%
Consumer Cyclical	733.18	2.15%	-10.74%
Transportation	1,265.25	-0.24%	-21.00%
Industrials	943.90	-3.46%	-13.70%
Technology	3,276.82	-3.38%	-26.12%
Infrastructures	1,439.25	-4.27%	-8.33%
Financials	1,351.84	-0.09%	-7.30%
Consumer Non-Cyclicals	698.28	1.12%	-3.34%
Healthcare	1,431.16	4.26%	4.00%
JCI	6,897.95	-1.04%	-5.15%
Energy	2,262.65	-1.91%	7.70%
Basic Materials	1,347.27	-4.27%	3.04%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.89	2 bps	64 bps
UST 10Y Yield	4.43	-6 bps	55 bps
Ind GB 10Y Yield	6.91	-1 bps	43 bps
USDIDR	16,276.80	26.80	879.80
CDS Indo 5Y	72.71	-20.67	2.49

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.71Tn	-15.17Tn
Government Bond Market (Rp)	-0.70Tn	-35.78Tn

Commodities	Last	1W	YTD
WTI	75.38	-2.09%	5.21%
Brent	79.49	-2.61%	3.18%
CPO (Malaysia)	3,976.00	-2.45%	10.14%
Coal (New Castle)	133.00	-6.60%	-9.15%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,029.35	1.48%	-5.56%
XIIT	IDX30	519.51	2.08%	-6.89%
XIJI	JII	597.19	0.34%	-1.67%
XISI	SMinfra18	347.23	4.02%	-6.73%
XISR	SriKehati	446.66	3.46%	-7.56%
XIHD	IDXHIDIV20	635.75	3.27%	-4.04%
XIPI	Pefindo I-Grade	234.52	1.40%	-3.02%
XIML	MSCI Indo Large Cap	276.59	1.79%	-8.44%
XIID	IDX30	491.79	2.52%	-8.99%
XIFE	FTSE ESG Indonesia	109.81	1.83%	-7.46%
XIIC	Consumer Related	966.24	2.91%	-5.28%
XIIF	Rate Sensitive	505.31	2.37%	-4.56%
XISC	BUMN Stocks	705.51	2.12%	-1.93%
XISB	Sovereign Bonds	499.01	0.20%	0.02%

Conventional	Last	1W	YTD	
RDMP	Equity	840.59	2.85%	-5.63%
RPCF	Balanced	2,577.38	1.65%	-3.05%
RDPCDA*	Balanced	964.77	1.85%	-2.64%
RDPCDB	Balanced	951.02	1.82%	-3.39%
RDPO 2*	Fixed Income	1,127.31	0.10%	2.19%
RDPU 2	Money Market	1,473.81	0.10%	2.04%

\*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	20.3	51.0	10.0	8.7	1.66	12.4	4.8	1.14
2 XIIT	21.8	55.5	11.3	10.6	0.92	12.1	5.1	1.07
3 XISC	26.8	43.0	4.5	14.3	11.48	10.3	6.4	1.33
4 XISR	31.5	55.3	5.1	7.6	0.55	12.4	5.3	1.11
5 XIIF	20.0	49.8	10.7	7.3	12.28	12.4	5.4	1.29
6 XISI	44.8	26.0	14.7	14.0	0.54	9.9	6.4	1.04
7 XIPI	15.0	63.4	17.4	3.6	0.60	15.8	4.0	1.18
8 XIIC	29.5	35.2	27.9	3.6	3.89	12.8	4.8	1.18
9 XIHD	24.4	53.5	5.0	13.8	3.29	10.5	5.9	1.12
10 XIJI	34.6	10.6	13.3	18.1	23.34	14.7	3.4	1.10
11 XIIML	10.0	80.0	4.4	0.0	5.61	12.0	5.6	1.11
12 XIID	19.0	56.5	11.4	10.7	2.31	13.0	5.1	1.07
13 XIFE	24.7	63.7	5.2	4.6	1.74	11.4	5.2	1.14
<b>Index</b>								
IDX80	31.8	40.3	15.6	12.2		11.2	4.8	
JCI	23.7	35.1	16.5	13.6		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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