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FUND MANAGER'S LETTER
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Macroeconomics

The Stealth Stimulus

US July employment report was still strong, nonfarm employment increased by 187,000 in July while the unemployment rate ticked down to 3.5%. The main takeaways from the report were that job growth has slowed lately but has remained strong, and the labor market remains tight. Apart from the monthly jobs report for July, the June JOLTS (Job Openings and Labor Turnover Survey) report also signaled a tight labor market even though demand for labor has cooled over the past year. Both job openings and quits remained elevated relative to pre-pandemic levels.

This surprising strength in US economy so far has

something to do with the larger than expected fiscal deficit. Some analysts are calling it the stealth stimulus. As recently as May, the Congressional Budget Office projected a FY 2023 deficit of USD 1.5 trillion, however, as of June, the YTD deficit was USD 1.3 trillion already. The majority of the recent widening of the deficit has been the result of lower than expected tax receipts. With tax payments expected to pick up in the coming months, the deficit will likely narrow and with some lag might contribute to slowing in US economy.

Indonesia's GDP growth accelerated in the second quarter, fueled by consumption. GDP rose 5.17% yoy

in the second quarter, higher than expectations of 5%. On a qoq basis, GDP rose 3.86%. Consumption grew 5.2% yoy, accelerating from 4.5% in the first quarter. By industry, highest growth were seen in transportation and warehousing which increased 15.3% yoy, other services 11.9% yoy, and lodging and food services with 9.9% yoy.



US Nonfarm employment monthly change | Source: Bloomberg

Equity

K-shaped earnings recovery

JCI corrected last week, ending down -0.69% dragged by tech which declined -2.9%, transportation -2.5%, healthcare -1.8%, consumer cyclicals -1.5%, and energy -1.3%. The only two positive sectors were basic materials which increased 2.2% and properties which increased 1.3%.

With most companies already reporting the second quarter results, we can see divergence between companies that cater to lower end consumers with those that cater to higher end, thus we can call it k-shaped earnings recovery. Lower end consumer

companies such as ICBP, MYOR, SIDO were disappointing. ICBP recorded -0.4% yoy growth in revenue; MYOR reported -6.2% decline in revenue, and SIDO reported just 2% growth in revenue. Meanwhile companies that cater to higher end consumers such as MAPI and MAPA were doing better. MAPI recorded revenue growth of 22.9% yoy and MAPA 36.6%. Property companies reported overall good results, BSDE posted revenue growth of 30% in 6M23, SMRA 8.6%, and CTRA -4%.

Fixed Income More Volatile

Global rates tend to move in more volatile trend in the past week following some economic data releases, specifically in the US, with data suggesting that labor market in the US remains robust as indicated by jobless claim that came only slightly higher. At the same time, Fitch Ratings downgraded the US Long-term-foreign currency issuer default rating to AA+ from AAA. This rating action was triggered by three main points, including potential fiscal deterioration over the next three years, high and growing general government debt burden and the erosion of the governance relative to AA and AAA rated peers in the past two decades that has reflected in the repeated debt limit standoff and



PBV of Property Stocks | Source: Bloomberg

last-minutes resolution. As a result, the UST 10-year yield rose by around 20 bps and touched the highest nearly to 4.2% before falling back to around 4.0% after the release of Non-Farm Payroll, which came slightly lower than consensus estimates last Friday.

However, given the above global sentiment, IndoGB remains relatively supported. In weekly basis, the 10-year and 20-year benchmark yield rose by around 5 bps while the 5-year benchmark yield went up around 8 bps, less volatile compared to US Bond Market. As a result, the spread IndoGB 10-year and UST-10 year tightened to 220 bps from 234 bps last week.



Spread of Indo 10 year and US 10 year | Source: Bloomberg



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