

DEAR INVESTOR,

Narendro Anindyo, CFA
Head of Equity & Research
Rifan Firmansyah
Head of Fixed Income

FUND MANAGER'S LETTER
JULY 1ST WEEK, 2023



Macroeconomics

Stagflation Continues

Markets once again woke up to reality that the world economy is largely still in stagflation mode. Inflation data from UK shows the consumer prices index rose 8.7% in May, the same as the month before. Core inflation accelerated unexpectedly to a 31-year high of 7.1%. The Bank of England on Thursday surprised markets with a 50 basis point hike to interest rates, its 13th consecutive increase. The move defied market expectations, which had priced in around a 60% chance of a 25 basis point hike. Meanwhile in the US, in front of Congress, Fed Chair Powell said returning US inflation to 2% is crucial to support the long-term health of the US economy, and that more interest-rate increases may be needed this year.

Powell also said US regulators will move to raise capital requirements for lenders, and that they could face an increase of about 20% in what they have to set aside.

In Europe, recession worries began to surface again as PMI data was very weak. The Euro area composite flash PMI decreased by 2.5pt to 50.3 in June, below consensus expectations. The decline in the area-wide index was led by France, followed by Germany. The manufacturing PMI was at 43.6, down from 44.8 in the previous month. The report showed a broad-based moderation across new orders, employment, new export orders, and backlogs.

We still view that we are seeing late cycle dynamics across developed market economies. Inflation that are broadly still above target will need to be fought by raising rates a bit more or at least keeping them high. This will bring further pain in terms of economic growth, and towards end of year, mild recession followed by declining inflation will bring the dawn of a new economic cycle.



Eurozone Manufacturing PMI | Source: Bloomberg

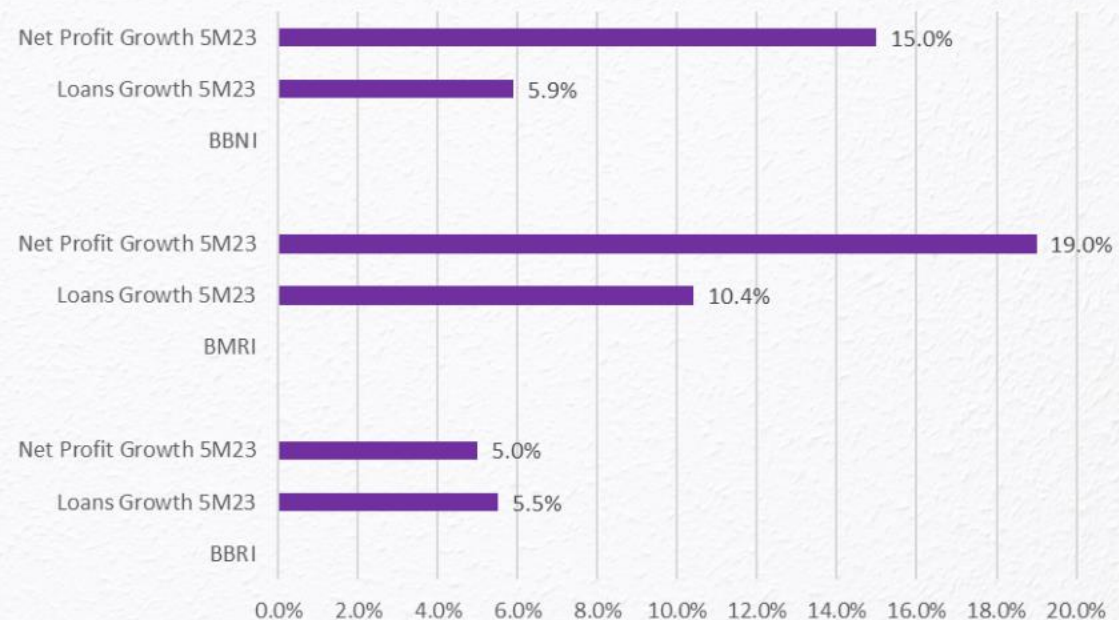
Equity

Big Banks To The Rescue?

The JCI declined -0.9% on the week ending June 23. All sectors were in the red. The biggest losers were tech (-4.3% WoW), healthcare (-1.6% WoW), and basic materials (-1.1% WoW). Leading sectors were financials (-0.1% WoW), transportation & logistics (-0.3% WoW), and energy (-0.4% WoW). Foreign investors recorded outflow of USD 116 mn on the week. Hawkish rhetoric from Jerome Powell and 50 bps rate hikes from Bank of England contributes to risk-off mood, and Bank Indonesia's somber assessment of domestic economic growth and low chances of rate cut this year did not help either.

Big banks posted strong 5M23 results in our view, with BBRI recording net profit growth of 5% yoy, BMRI 19% yoy, and BBNI 15% yoy. BBRI's underperformance was due to higher provisioning, with credit cost of 3.1%. Loan growth was still robust overall, with BBRI posting loans of 5.5% yoy, BMRI 10.4% yoy, and BBNI 5.9% yoy. Some slowing down is expected after last year's high loan growth achievement, however we still view that big banks can achieve double digit earnings growth this year, with NIM flattish, loans mid to high single digit growth and credit cost declining. We view that once the market sees that big banks can still post good results then it can be a catalyst that move the

market higher, as the banks are now trading at slightly above 5-year average PBV with ROE at 5 year high.



Big Banks' Loan and Net Profit Growth in 5M23 | Source: Companies

Fixed Income Waning Momentum

Over the week, IndoGB was a bit flat. The 10-year yield moved in a tight range at 6.30% to 6.26%. Meanwhile IndoBeX Government Total Return recorded a small weekly loss around 0.08%, this marked the first weekly loss in the past 14 weeks. As expected, BI keeps on hold its policy rate at 5.75%, consistent with the monetary policy stance to ensure that inflation remains under control within the target range 2%-4% for the rest of this year. BI's focus is now directed towards strengthening IDR stabilization to control imported inflation and mitigate the impact of external pressure. BI forecasted Indonesia GDP to remain solid at around 5% in 2023 and headline CPI at around 3.2% at end of 2023.

As of 21 June 2023, foreigners and onshore banks were reported as the biggest buyer with MTD net inflow of IDR 13.6 tn and IDR 11.9 tn. Other institutions including insurance and pension funds as well as mutual funds also reported net inflow of IDR 7.8 tn and IDR 4 tn, respectively, while BI reduced its position by around IDR 17.3 tn.

We are still maintaining our positive view on domestic bond market as supported by solid macro fundamental, low supply risk, lower inflation pressure, relatively stable currency & attractive valuation compared to peers' country, which can bring more inflows and still ample liquidity.



USDIDR Ytd | Source: Bloomberg



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