DEAR INVESTOR,

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FUND MANAGER'S LETTER
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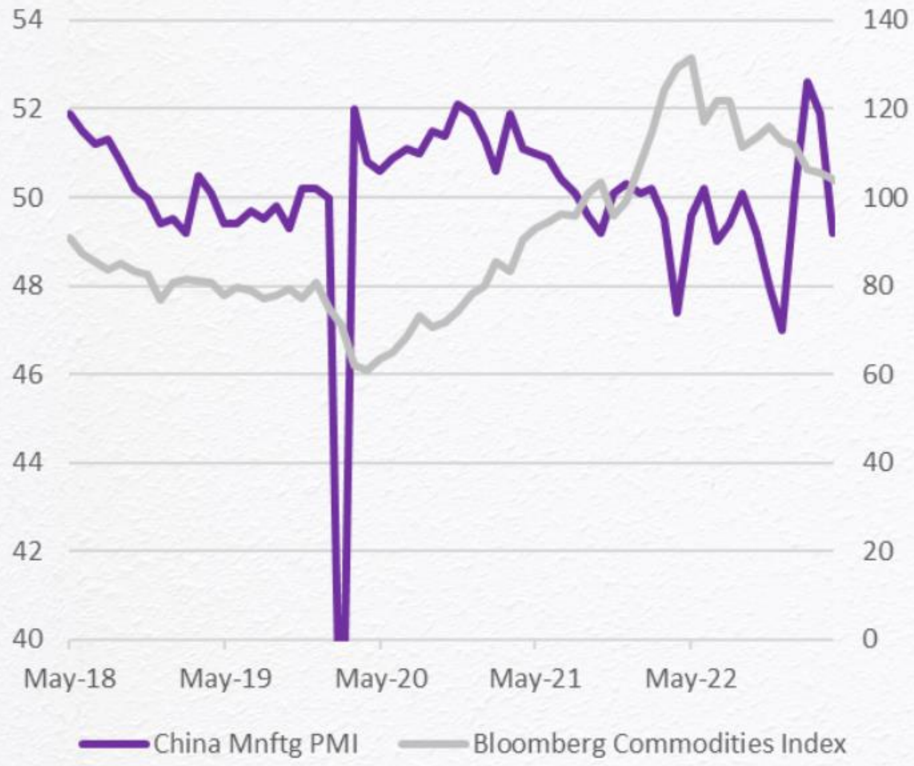
Macroeconomics

Waiting For Stronger China Recovery

After a year of challenging economic conditions in 2022 due to covid zero policy, many market participants expected that 2023 is going to be a strong year for China. Whilst some economic data point seems to suggest that China's consumption has been recovering (retail sales up 10.6% yoy in March), others have shown less convincing numbers (manufacturing PMI unexpectedly decline to 49.2 in April). This mixed performance reminds us that the long term headwinds for China's economy are still there such as oversupply and high leverage in some segments of its property market, worsening demographic profile, and geopolitical issue with US. In our view these long term headwinds might make businesses in China less upbeat in conducting their capex and hiring activities, and contribute to less than stellar recovery so far.

One of the consequences of below expectation recovery in China is a decline in commodity prices. The Bloomberg commodities index declined -8.2% ytd driven by crude oil (brent) which has declined -7.8% ytd. In our view, with potential banking crisis in US out of the way (or at least not as bad as feared), the remaining hurdles for commodities prices to clear are sluggish recovery in China and still hawkish central banks.

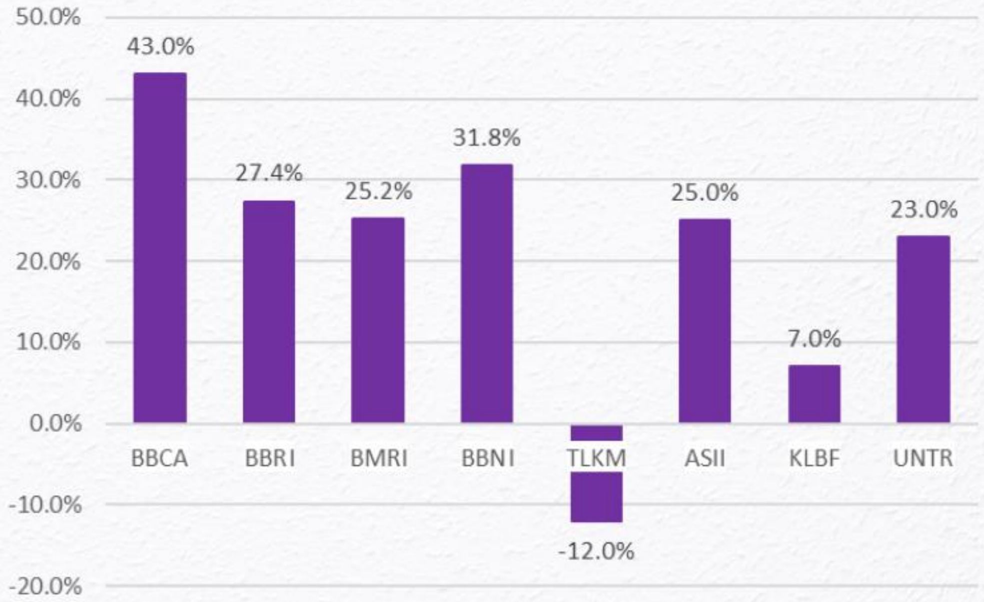


China Manufacturing PMI and Bloomberg Commodities Index | Source: Bloomberg

Equity
Stellar First Quarter For Earnings

The JCI increased 1.38% on the week ending April 28. The leading sector was transportation & logistics which increased 4.5% WoW, followed by consumer staples +2.8% WoW, properties 2.3% WoW, and tech +2.0% WoW. Lagging sectors were financials which declined -0.3% WoW and industrials which was flat.

Earnings results from the first quarter of 2023 have started to come out and so far we have seen stellar results, in our view this is evidence that Indonesian economic recovery still has room to go and does not face the same headwinds as in developed markets such as high interest rates (yes rates are higher but still manageable for Indonesian standards) and high inflation (most big companies are able to pass on costs so far). Earnings of the big 4 banks increased 25-40% yoy, some other big caps that manage to book more than 20% earnings growth include ASII and UNTR. Some consumer names also book high core earnings growth such as MYOR (+138% yoy) and MAPI (+47% yoy).



Core Earnings Growth Of Some Of JCI's Biggest Companies | Source: Companies, Avram

Fixed Income
The Last Hike (?)

Indobex Composite Total Return Index increased 0.48% on the week ending April 28. Indonesian 2 year yield declined 8 bps to 6.19% and Indonesian 10 year yield declined 14 bps to 6.53%. US 2 year yields declined 17 bps to 4.00% and US 10 year yield declined 15 bps to 3.42%.

The global fixed income market is holding its collective breath waiting for the results of FOMC meeting on May 3, with Fed expected to rise another 25 bps. What will be watched are Powell's comments on whether this is the last hike of this cycle. Meanwhile core PCE data in US rose 4.6% yoy, which reinforce the view that rate cuts are still a long way from now.

US Core PCE Inflation, US 2 Year Yield | Source: Bloomberg

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