

DEAR INVESTOR,

Narendra Anindyo, CFA
Head of Equity & Research

FUND MANAGER'S LETTER
MAY 2ND WEEK, 2023



Macroeconomics Not (Yet) In A Recession

Watching financial news and the movement in global asset prices gives us the impression that a recession in developed markets is here or imminent, with bonds doing well (Bloomberg Global Aggregate Total Return Index +3.6% ytd), commodities declining (Bloomberg Commodities Index -8.7% ytd), and defensive stocks outperforming cyclicals (US Cyclicals vs Defensives Index -0.9% ytd). Renewed concern on regional banking crisis in US with First Republic being the latest victim followed by cratering stock price of PacWest certainly reinforce the gloom and doom narrative. However, economic data says not so fast. Even though a slowdown in manufacturing is clear (ISM Manufacturing PMI

below 50 for 6 months), but certain parts of the economy, especially the labor market, is still strong enough to bring us the hope that a soft landing can be achieved. In the US, jobs report on May 5 brought above expectations numbers, Nonfarm payrolls increased 253,000 after a 165,000 advance in March. The unemployment rate fell back to a multi-decade low of 3.4%. Average hourly earnings rose 0.5% in April (the most in a year) ,or 4.4% yoy.

In Indonesia, GDP reports of 1Q23 was stronger than expected. It came out at 5.03% yoy, better than consensus of 4.95% yoy. Breaking down by expenditure, private consumption was relatively

strong at 4.57% yoy, government expenditure at 3.99% yoy, and investment at 2.2%yoy. Sector-wise, some of the notable fast growers that constitute a big portion of the economy are transportation and warehouse (+15.9%yoy), IT & communication (+7.2%yoy), and mining & quarrying (4.9%yoy).



US Non Farm Payrolls | Source: Bloomberg

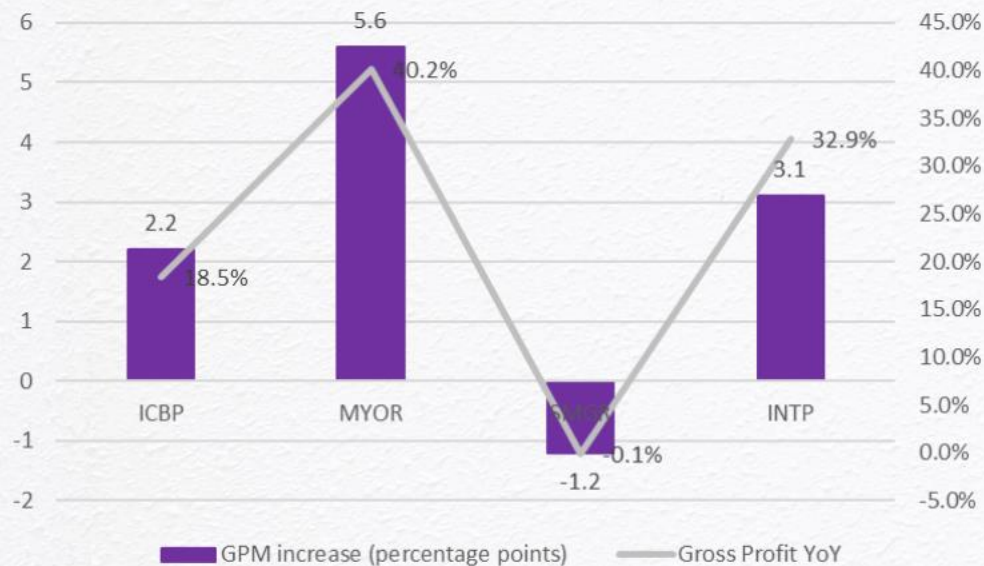
Equity

The Power Of Pricing Power

The JCI declined -1.8% on the week ending May 5. The heaviest decliners were energy (-6.7% WoW), industrials (-5.1% WoW), and basic materials (-4.8% WoW), while advancing sectors were consumer staples (+1.0% WoW), consumer cyclicals (0.7% WoW), and properties (0.5% WoW). The JCI was battered by negative sentiment on First Republic and PacWest bank troubles in US and declining oil prices. Foreign outflow was recorded at USD 50 mn on the week. Our view is that the negative sentiment is just a fearful reaction to potential recession in US which was already much anticipated anyway, and eventually investors will see that Indonesian companies remain relatively robust.

Some of the more interesting takeaways from Indonesian companies reporting results in the first quarter was the fact that pricing power have become even more important in current environment of higher inflation. Consumer staples companies such as ICBP which have successfully increased their noodles segment ASP by approximately 10% and MYOR which during the past year have increased prices by more than 10% have recorded stellar double digit gross profit growth in 1Q23. Meanwhile in cement sector, SMGR which have increased their blended domestic ASP by 6% yoy and INTP by 10% yoy also showed sequential improvements, though they still had to face higher

raw materials, packing, and energy cost and SMGR's higher energy and overhead cost made them fail to achieve margin expansion in 1Q23 while INTIP did.



Gross Margin Increase and Gross Profit Growth 1Q23 | Source : Companies, Avram

Fixed Income How Low Can Yields Go

Indobex Composite Total Return Index increased 0.44% on the week ending May 5. Indonesian 2 year yield declined 1 bps to 6.18% and Indonesian 10 year yield declined 9 bps to 6.44%. US 2 year yields declined 9 bps to 3.91% and US 10 year yield increased 2 bps to 3.44%.

After Fed's largely expected 25 bps move on May 3 which most likely will be followed by a pause for at least several months, market participants were back to searching for clues in economic data and watching the unfolding problems in US regional banks for direction of bond yields. During last week, US 10 year yield briefly declined to 3.3% in the

middle of the week before rebounding on Friday due to strong jobs data. Indonesian bond yields meanwhile has continued its decline, and this bring Indonesian 10 year yield's decline to 50 bps ytd, and we had to ask how low can it go, as we view that catalyst for further strength in



Indonesian 10 year Yield | Source: Bloomberg



Follow us!

 **avrist.investasi**

www.avrist-am.com