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DEAR INVESTOR,

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FUND MANAGER'S LETTER
MAY 3RD WEEK, 2023

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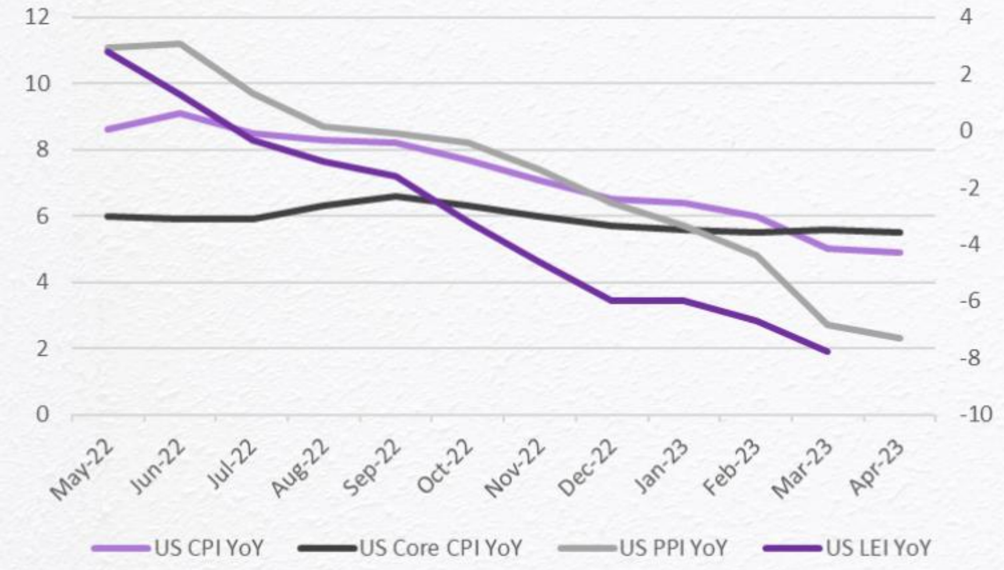
Macroeconomics
Cooling Down

Last week given us the report that US Consumer Price Index rose by 4.9% from a year earlier, the first reading below 5% in two years. Excluding food and energy, the so-called core consumer price index also cooled slightly, to 5.5% from 5.6% the month before. There are also some signs that service sector price pressures are moderating, with the Core Services Ex-Housing CPI eased to 5.1% yoy from 5.8% the month before. As usual the camp is still divided into two, with the hawks still saying that Core CPI at 5.5% is still far too high from The Fed's target at 2%, and the doves saying that downward trend in inflation is clear and a potential credit crunch is coming, supported by Senior Loan Officer Survey's data that indicates 40% of them are tightening credit standards. Markets are also still on edge on how and when the US debt ceiling will be raised, as Congressional Budget Office warned that US Government may have to default on something as early as June if the debt ceiling is not raised.

Our view is that a slowdown in DM economies is set to continue in the second half, as pointed by declining US Leading Economic Index, and inflation is on track to slow further (US Core Services EX-Housing CPI is up just 0.1% MoM, indicating only 1.3% if annualized). China is also showing less than expected recovery, last week the China inflation ....

report showed only 0.1% YoY CPI and -3.6% YoY PPI, signaling weak demand there and crashing the commodities markets (Brent Crude Oil -1.5%, copper -3.8%, nickel -9.4% WoW).

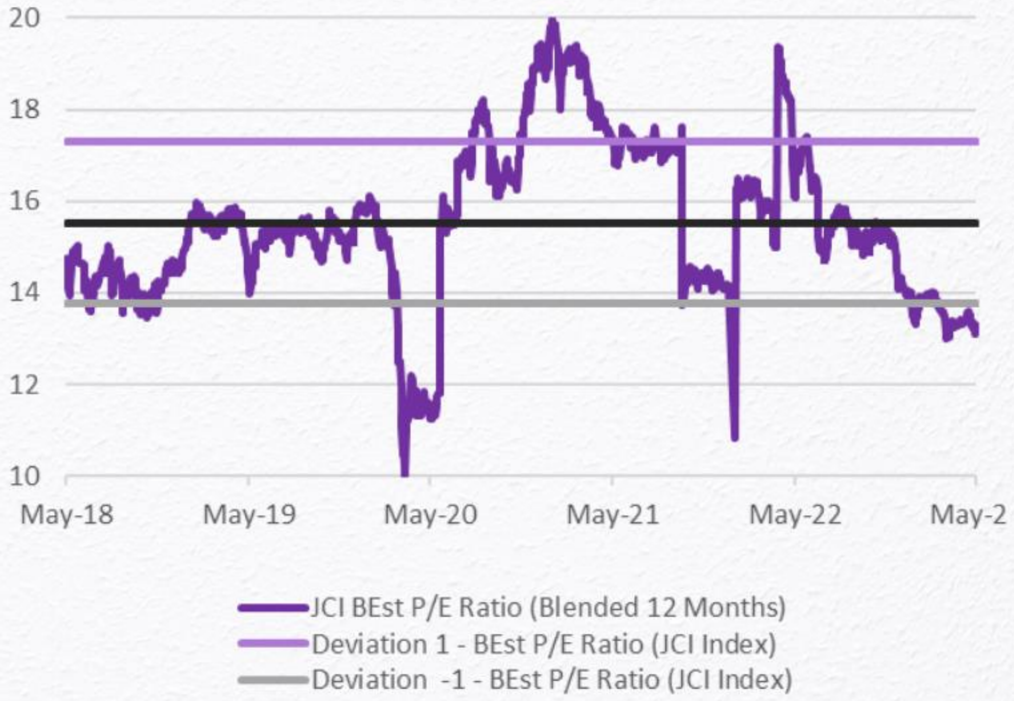


US CPI, Core CPI, PPI, Leading Economic Index | Source: Bloomberg

Equity
Stay in May

The JCI declined -1.2% on the week ending May 12. The heaviest decliners were basic materials (-3.9% WoW), energy (-1.8% WoW), healthcare (-1.1% WoW), while advancing sectors were properties (+4.4% WoW), consumer cyclicals (3.7% WoW), and transportation (3.2% WoW). The commodities-related sectors were hit by negative sentiment on weak China inflation data and strengthening US Dollar (DXY up 1.4% WoW). Foreign outflow was recorded at USD 139 mn on the week. Our view is that while commodities sectors may still take time to rebound strongly, domestic oriented sectors in JCI is still sound fundamentally and the index is now back to attractive valuation (13.1x P/E).

The first two weeks of May have vindicated the “Sell in May” saying with JCI decline of 3% Mtd and foreign outflow of USD 189 mn. Valuations though have become more attractive with the big four banks and TLKM trading at or near minus one standard deviation below their 5-year P/E average. We also note that earnings estimates for JCI overall have been upgraded since April, especially from the industrials sector (i.e. ASII, UNTR).



JCI Blended 12 Month Forward P/E Ratio | Source: Bloomberg

Fixed Income
Still Strong

Indobex Composite Total Return Index increased 0.54% on the week ending May 12. Indonesian 2 year yield declined 23 bps to 5.95% and Indonesian 10 year yield declined 5 bps to 6.39%. Meanwhile US 2 year yields increased 7 bps to 3.98% and US 10 year yield increased 3 bps to 3.46%.

Foreign investors recorded outflow of USD 79 mn on the week. However the strength in Indonesian bonds continued, supported by expectations of a rate cut by Bank Indonesia later this year. Though consensus now still expect rate cut to only begin next year, some market participants are betting that Indonesia's declining inflation and stable-to-strong ...

Rupiah will afford the central bank the privilege to cut rates in the second half of this year. Our view is that as long as Fed does not cut rates yet, it will be difficult for BI to cut rates, as the spread of our real policy rate to US real policy rate is already tight at 0.8 % compared to past 5 year average of 4%.

In addition to that, the recent rally also supported by lack of supply due to long public holiday. The last conventional bond auction was done on 11 April 2023 and the government will hold the first conventional bond auction series by this week. We expect demand could potentially be stronger as also seen in the latest sukuk auction, which could be able ..

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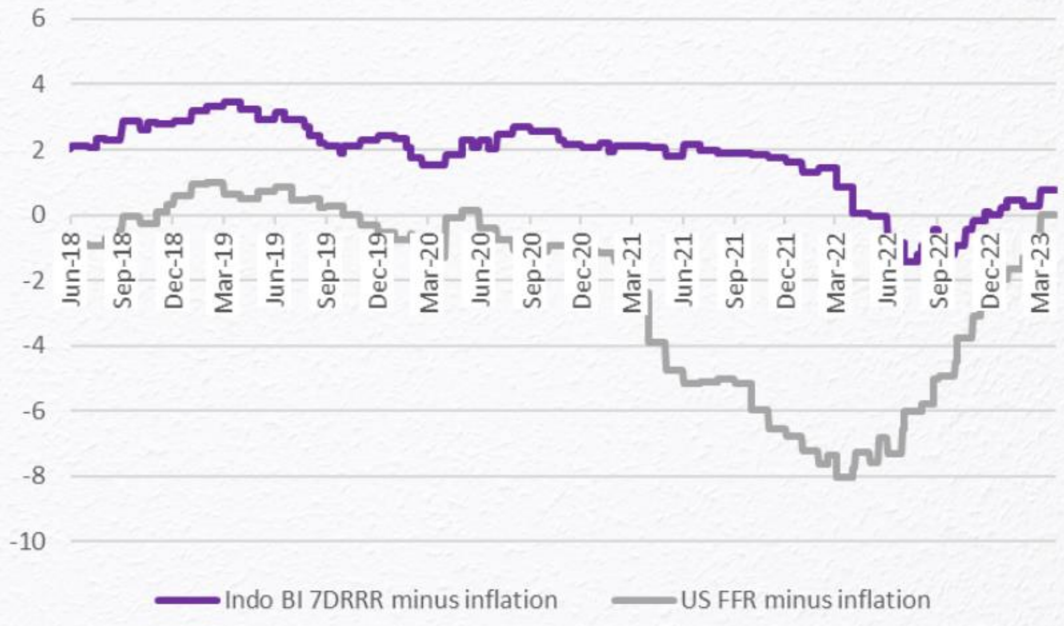
to attract demand of around IDR 40 tn, much higher than compared to IDR 24 tn previously. With the government issuance target from regular auction of only IDR 130 tn while total maturing bond of IDR 158 tn in this quarter, this, in our view, would give positive catalyst to local bond market.



BI 7DRRR minus inflation and US FFR minus inflation | Source: Bloomberg

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Thank you

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