

DEAR INVESTOR,

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FUND MANAGER'S LETTER
MAY 4TH WEEK, 2023



Macroeconomics

Option To Skip

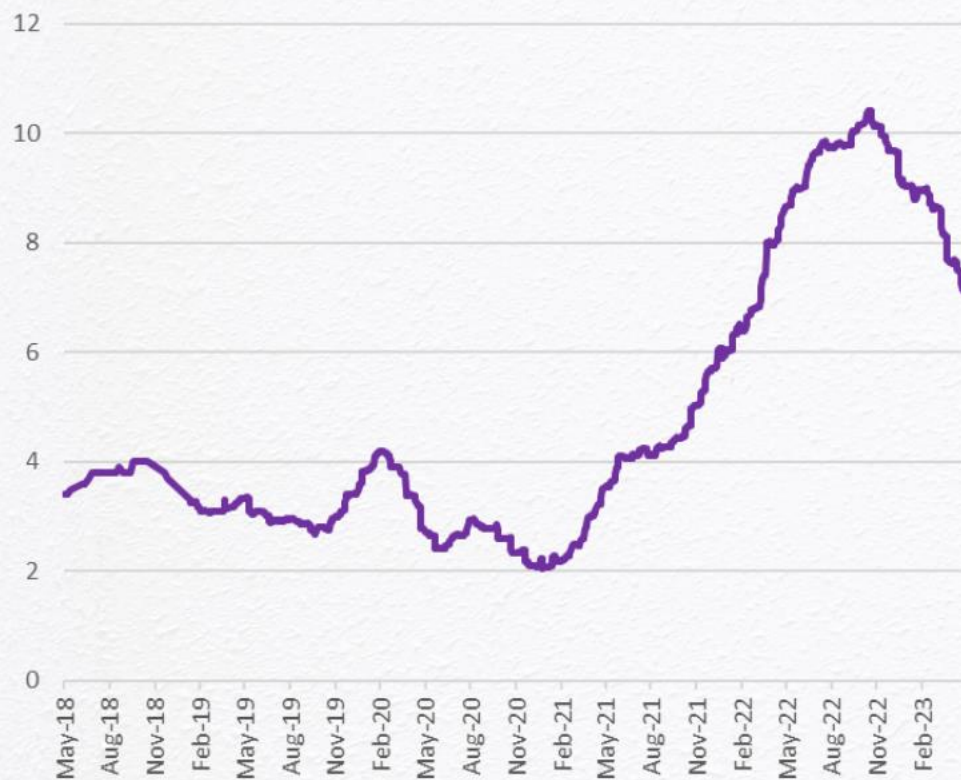
Fed Chair Jerome Powell remarked that he is inclined to pause interest rate increases in June's FOMC meeting, however several officials suggested they want to keep hiking. Governor Michelle Bowman and Cleveland Fed President Loretta Mester, have suggested the Fed should keep raising rates because they've not seen convincing evidence that price pressures are cooling fast enough. Atlanta Fed President Raphael Bostic has also said that not moving in June wouldn't necessarily mean the Fed was done raising rates, instead he said that a pause could be a skip, meaning they might raise rates in the subsequent meeting in July. The dollar has slightly strengthen amidst this more hawkish tone,

dollar index was up 0.5% WoW and bounced 2% in the last two weeks.

Meanwhile in the UK, Bank of England Chief Economist Huw Pill gave comments that officials think they might be able to pause their rate-hiking cycle, saying inflation has hit a turning point and is likely to slow. Pill said the base effects of huge energy rises this time a year ago will start to fall out of the calculations. Domestic demand is likely to weaken as borrowing costs rise. The remarks follow the BOE's decision to lift its base interest rate for a 12th consecutive time to 4.5%.

Our view is that inflation globally has past its peak and will continue to slowdown, but to a level that is higher than pre-pandemic standards, particularly in DM as their labor market seems tighter. And we opine that the prudent thing for central banks to do is wait for higher interest rates to work its way through the economy. Global inflation is shown at 7.1% yoy in May, down from its peak of 10.4% yoy in November. However this level is still much higher than December 2019's level of 3.1% yoy.

We view that higher inflation is a structural phenomenon, helped by factors such as labor market demographics in DM, structural lack of supply in commodities, reverse of globalizations, and fight against climate change.

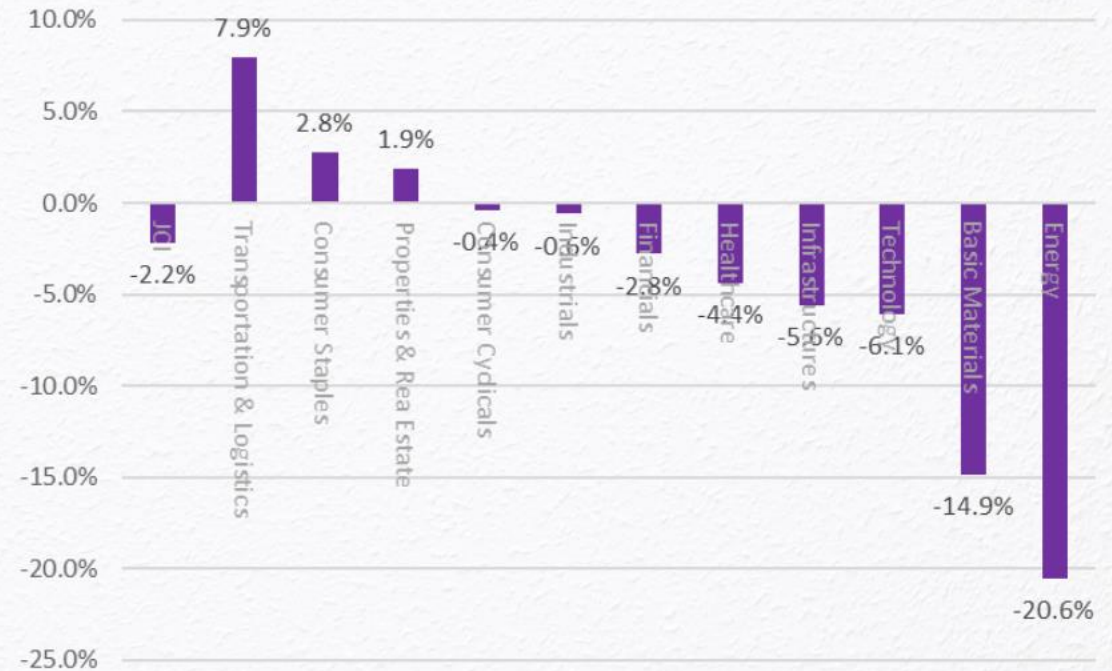


World Economy Weighted Inflation YoY | Source: Bloomberg

Equity Domestic Oriented

The JCI declined -0.21% on the week ending May 19. The heaviest decliners were energy (-5.6% WoW), transportation (-3.9% WoW), and basic materials (-3.4% WoW) while advancing sectors were healthcare (+1.9% WoW) and consumer staples (+0.4% WoW). Foreign investors recorded inflow of USD 60 mn on the week, with all of it occurring on Friday, and reducing the month-to-date outflow to USD 129 mn. BBRI was foreign investors' favorite last week, with net buy value of IDR 772bn, and the stock has reached an all-time high of 5,400. GOTO is benefiting from its inclusion in MSCI index, recording IDR 544bn flows, followed by ASII and ICBP with IDR 294bn and 262 bn flows.

JCI has been dragged down by some of its higher beta sectors so far this year. Commodity related sectors such as energy and basic materials are down -18% and 14% ytd. While tech sector is down 6% ytd. The bright spots are industrial which is up 6.7% ytd (total return), supported by ASII which is up 23% ytd (total return). Also consumer staples, which is up 3.3% ytd and properties 1.9% ytd. Domestic oriented sectors is becoming investors' favorites.



JCI Return by Sector Ytd 19 May 2023 | Source: Bloomberg

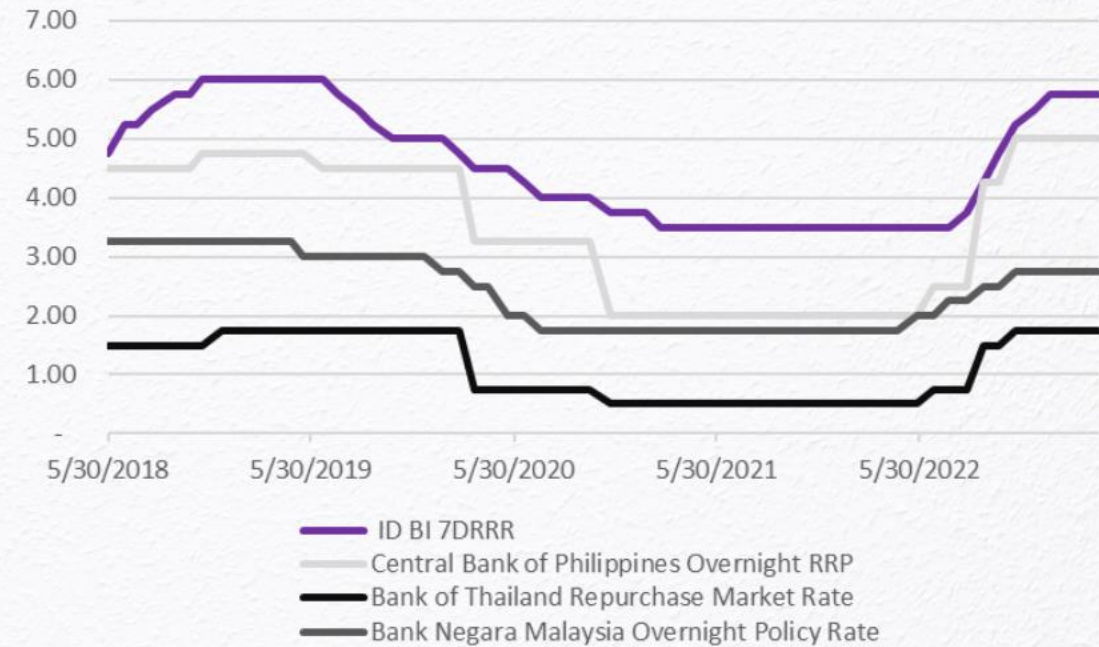
Fixed Income Still Positive

Domestic bond market continued to record positive performance last week with Indonesia composite bond index accelerated by around 0.19%. The short end tenor below 3 years in maturity relatively outperformed with the yields fell by around 10-12 bps while the yield in the belly part of the curve mainly unchanged compared to a week before. However, the long end above 18 years seems remain being chased with the yield slightly down by around 2 bps. The 10-year benchmark series was closed at 6.41% after touched the lowest at 6.34% in Wednesday after the auction came with solid demand of more than IDR 65 tn, higher than previous auction at IDR 45 tn and also higher than

YTD average bid per auction IDR 47 tn. Interestingly, although incoming bids were higher, the government only decided to issue new supply of IDR 15 tn, lower than IDR 16 tn previously.

Next thing to watch is BI's policy meeting, which we expect BI to hold its policy rate as inflation continues to decelerate. Just recently, some of EM's monetary policy also paused its policy rate hike, including Central Bank of Philippines, which decided to hold its policy rate for the first time during May meeting at 6.25% after cumulative hikes of 425 bps since last year as inflation slowing down for the third consecutive months to 6.6% In April. These,

may indicating that the global tightening cycle has come to the end.



BI7DRRR compared with ASEAN Countries' Policy Rates | Source: Bloomberg



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