

# DEAR INVESTOR,

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

FUND MANAGER'S LETTER  
MAY 5 TH WEEK, 2023



## Macroeconomics Done Deal

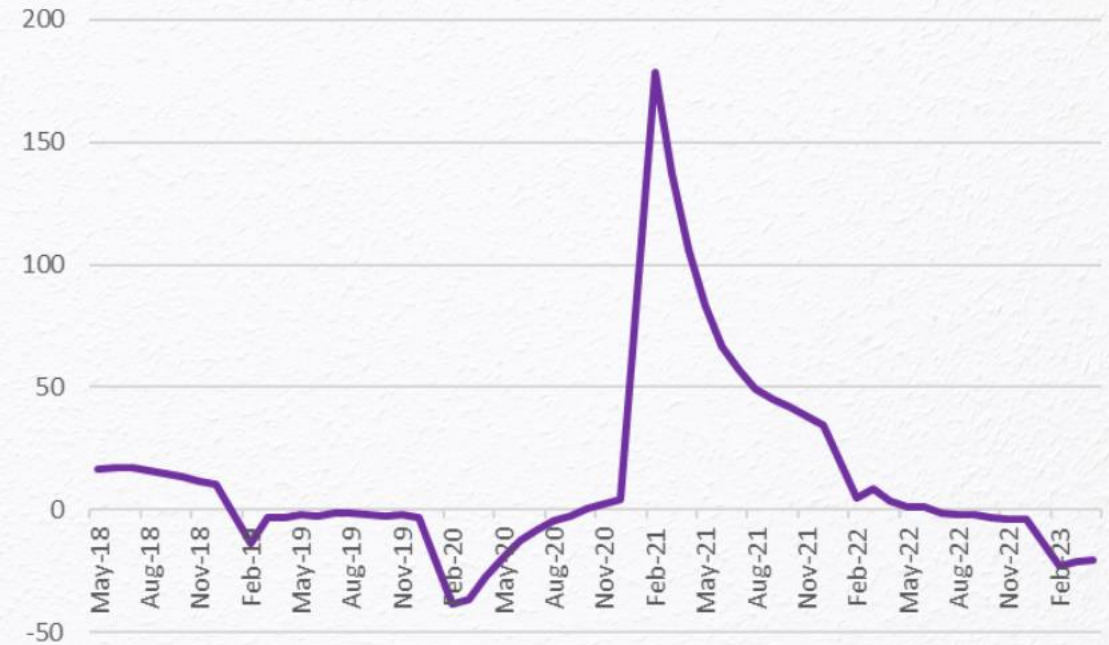
After more than two weeks of uncertainty surrounding whether or not the US will have to default on some of its payments, finally President Joe Biden said he and House Speaker Kevin McCarthy reached a final agreement to avert a historic US default on Sunday afternoon. Though the deal still have to be approved by Congress, we view that the markets will most likely look past this event and back into more structural economic matters such as inflation, jobs market, and China's slow recovery.

In China, bad news keep emerging, industrial profits fell 20.6% in the January-April period from the same

time frame in 2022, data published Saturday by the National Bureau of Statistics showed. Profits for the single month of April were down 18.2% from a year earlier. Market participants are now betting that the Government may need to throw some stimulus to support the economy, The People's Bank of China is expected to cut the reserve requirement ratio, or the amount of cash banks have to keep in reserve, for major lenders by 25 basis points by the end of the third quarter of 2023.

Bank Indonesia maintained the BI 7-Day Reverse Repo Rate at 5.75%, while also maintaining the Deposit Facility (DF) rate at 5.00% and Lending

Facility (LF) rate at 6.50%. Bank Indonesia is confident that core inflation will remain under control in the 3.0%±1% target corridor in 2023 and CPI inflation will return to the 3.0%±1% target in the third quarter of 2023.



China Industrial Profits Ytd YoY | Source: Bloomberg

## Equity Entering Election Period

The JCI declined -0.20% on the week ending May 26. The heaviest decliners were tech (-5.3% WoW), energy (-3.3% WoW), and basic materials (-2.4% WoW) while advancing sectors were consumer cyclicals (+2.4% WoW), transportation (+2.4% WoW), and consumer staples (+1.0% WoW). Foreign investors recorded inflow of USD 146 mn on the week.

Anticipation of Presidential and Legislative Elections to be held early next year is starting to be talked about in Indonesian equity markets. With three candidates expected so far, and still fluid political dynamics, we view that the campaign period will bring some uncertainties but also will have some

beneficiaries in terms of stocks performance. Consumer sector is the traditional preferred play, with the sector typically benefiting from boosted purchasing power of low end consumers during campaign periods. This year we view that consumer sectors' outperformance, aside from being affected by campaign money circulating among consumers, will also benefit from continued margin expansion. In the past four elections, JCI itself has outperformed global stocks (MSCI ACWI) in the nine months period surrounding elections (two quarters before and one quarter after), except in 2019.

## Fixed Income Domestic Resilience

The UST yield, which is considered as global core benchmark, continued to show a volatile environment given the concern on the debt ceiling discussion. The front end of USD curve extended to weaken with the yield on the 2 year increased by around 22 bps to 4.5% while the 10 year and 20 year yield moved higher by 11 bps and 5 bps to 3.78% and 3.97%, respectively. However, there was a piece of news over the weekend that Democrats and Republicans, in principle agree to raise the US debt ceiling and avert a default, although it would still need to be officially approved by congress.

In contrary, it seems that domestic market is a bit

	1Q04	2Q04	3Q04
JCI	6.3%	-0.5%	12.0%
MSCI ACWI	4.2%	9.5%	-3.6%
	1Q09	2Q09	3Q09
JCI	5.8%	41.3%	21.8%
MSCI ACWI	-8.3%	5.8%	11.1%
	1Q14	2Q14	3Q14
JCI	11.6%	2.3%	5.3%
MSCI ACWI	-5.8%	8.5%	-0.2%
	1Q19	2Q19	3Q19
JCI	4.4%	-1.7%	-3.0%
MSCI ACWI	10.3%	2.0%	-0.2%

JCI Around Election Times | Source: Bloomberg

more sheltered from the global uncertainty. IndoGB yields continued to be anchored with the yield spread to UST yield touching all time low at 261 bps. In addition to that, IndoGB yields curve relatively a bit steepened as the short end yield fell around 4 to 7 bps compared to a week earlier. Meanwhile, the 5- and 10-year benchmark series only reported small change with the yields slightly fell by 1 and 2 bps to 6.09% and 6.42%, respectively.

Month-to-date up to 25 May 2023, foreigners keep accumulating IndoGB and reported net buy around IDR 8 tn, resulting to total net inflows of IDR 68.7 tn since beginning of the year. Now, foreign holdings is

at 15.3% of total outstanding, went up from 14.3% by end of last year.



Spread of Indo 10 Year Yield to US 10 Year Yield | Source: Bloomberg



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