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Asset Management

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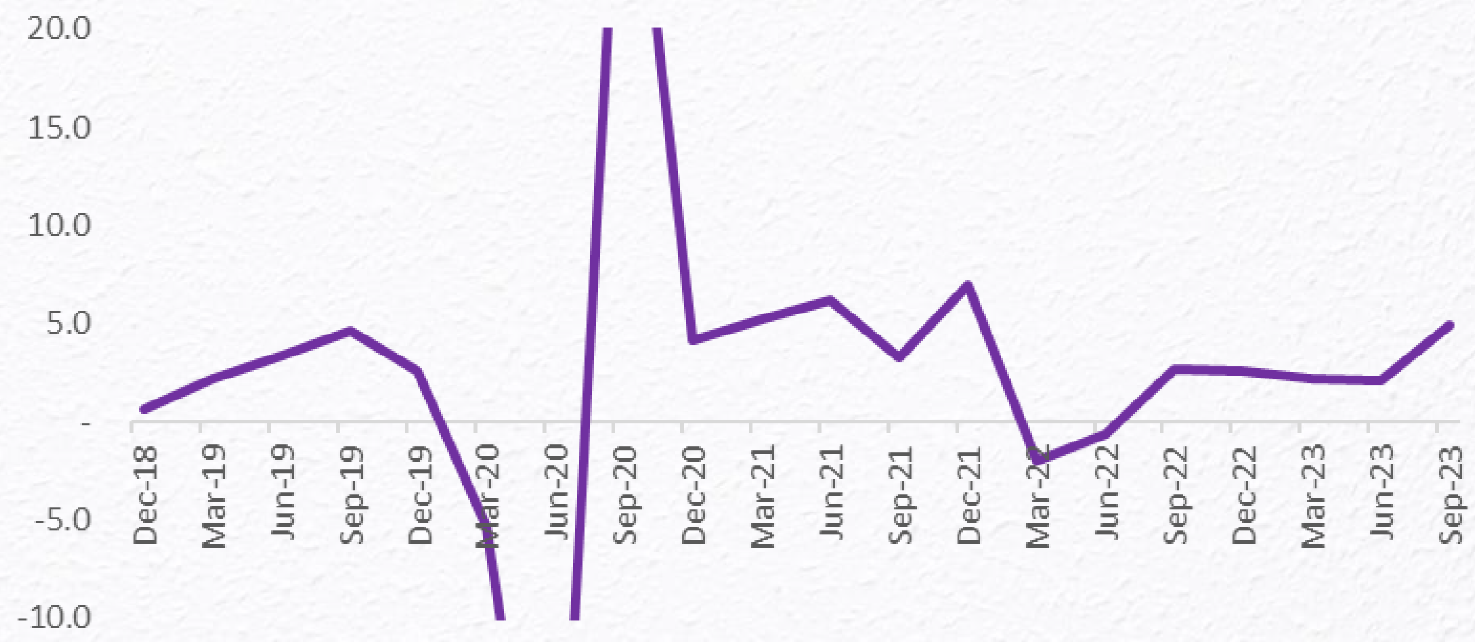
FUND MANAGER'S LETTER
NOVEMBER 1ST WEEK, 2023

Macroeconomics
Stuck In Uncertainty

This past week has continued to bring more uncertainties from the macro front into investors' assessment of the investing landscape. First there was the strong US GDP numbers, coming in at 4.9% q/q saar, the fastest pace since 4Q21. This was well above consensus expectations of 4.5%. This strong number in our view will likely reinforce Fed's decision to maintain rates relatively high in the coming year. Second, the US Core PCE accelerated to a four-month high in September, at 0.3% MoM.

While the US economy has defied calls of recession this year, many in the market are still cautious on the prospect of economic growth in the coming months considering that long term bond yields have risen more than 100 bps in the past 5 months, student loan payment is coming back, and auto loans and credit card delinquencies keep rising. This pattern of strong current data but expectations of coming weakness have been going on these past few months and in our view is a major source of uncertainty in the market. The situation in the Middle East also brings further uncertainty, even though for now the market seems to price the scenario that the war will not escalate into a broader regional conflict, as seen by the volatile but rangebound oil price.

The Chinese government has announced one trillion yuan (USD 137 bn) budget boost and willingness to exceedthe 3% limit of deficit to GDP ratio. This unusual budget change is a signal that policymakers intend to support growth. We are currently expecting that China’s growth and its stock market may finally bottomed.



US GDP QoQ SAAR | Source: Bloomberg

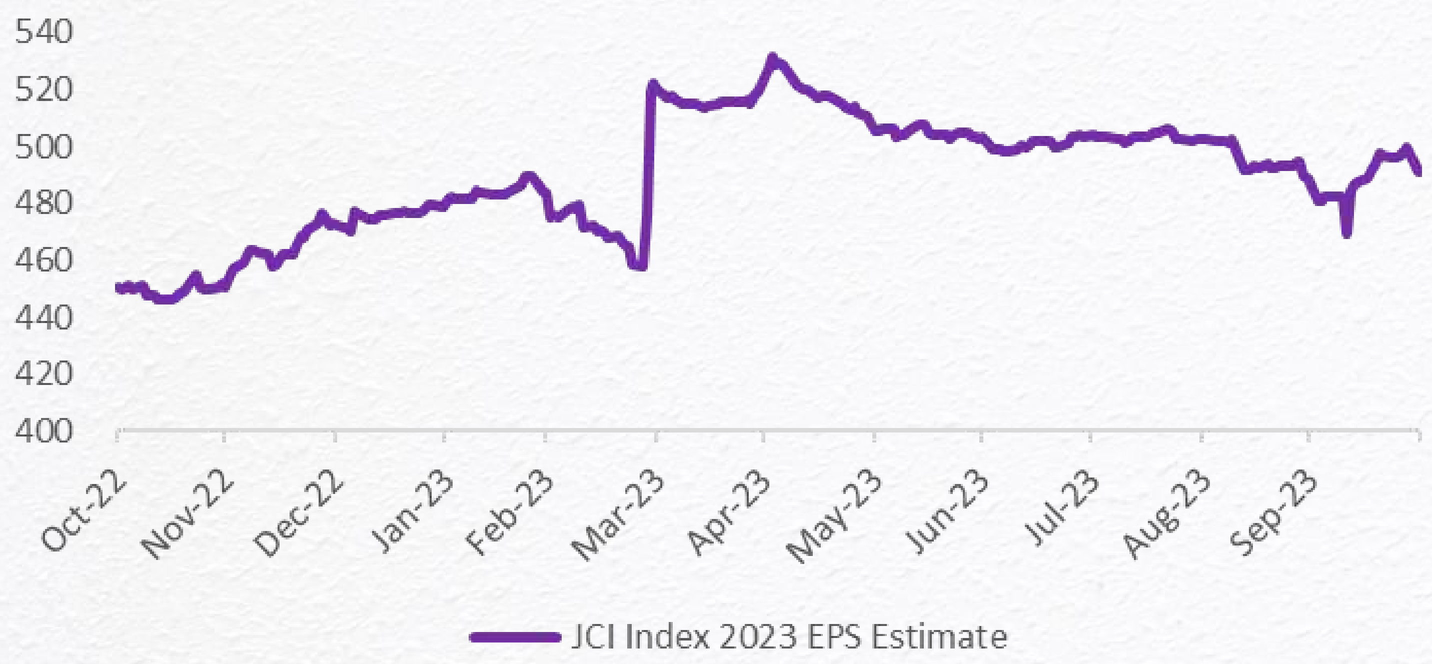
Equity
Still Cautious

JCI posted another loss last week, declining -1.3%, with tech, basic materials, and energy as the worst performing sectors, declining -3.5%, -2.2%, and -1.6%. Healthcare, staples, and transport led with gains of 1.4%, 1,4%, and 0.4%.

Amidst the uncertainties and risk-off mood globally, foreign have net sold close to another USD 200 mn last week, bringing the month to date outflow to USD ~380 mn. With the presidential and vice president candidates having been announced, the possibility of a two-round election has increased and “wait and see” attitude from investors and businesses might just be longer. The combination of these factors and lack of catalysts have made the market quite cautious. The third quarter earnings season have begun and while the numbers are good, it is not outstanding enough to offset the negative macro forces.

BBRI reported 9M23 Net Profit growth of 12% yoy, with loan growth of 13% yoy. The strong loan growth was driven by micro and corporate loans. BBCA reported 9M23 Net Profit growth of 26% yoy, with loan growth of 12% yoy driven by corporate and consumer loans. UNVR posted 3Q23 Net profit growth of 21% yoy, driven by gross margin expansion of 480 bps yoy.

Fixed Income
Volatility Continues



JCI 2023 EPS Revision Trend | Source: Bloomberg

In the final week of Oct-23, volatility in bond market continued following to global uncertainty where the IndoGB 10-year yield benchmark touched the highest at 7.30% before it fell back to around 7.10% by end of last week. Based on IBPA (Indonesia Bond Pricing Agency), the yield curve tends to flatten with the yield spread between 5 and 10 years at only around 8 bps. The Indobex government total return index closed at 352.13, suggesting weekly loss -0.24% or -1.43% MTD and +4.43% YTD.

In the last government sukuk auction, the incoming demand declined to only IDR 8.25 tn from IDR 10.75

tn in the previous sukuk auction. At this level, the government decided to issue IDR 2.03 tn and only awarded to 6-month SPNS, PSB036 (15 Aug 2025) and PBS037 (15 March 2036) and cancel the rest of issuance including PBS003 (15 Jan 2027), PBSG001 (15 Sept 2029) and PBS033 (15 Jun 2047).

Previously, the US Bureau of Economic Analysis reported that the PCE Price Index in September with a small change and increased by 0.4% (Cons: +0.3% MoM, Prev: +0.1% MoM) and +3.7% YoY (Cons: +3.7% YoY, Prev: +3.8%).

This week, investors are waiting for the FOMC meeting and its interest rate decision, which is scheduled for next Thursday. Based on the Fed Funds Future, the majority of market participants anticipate the FED will keep its policy rate unchanged at its current level 5.25%-5.50%.

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