avrist Asset Management

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FUND MANAGER'S LETTER
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Macroeconomics
Finally A Slow Down

The US NFP (Non Farm Payroll) for October fell below expectations, adding a net of 150k jobs, which was lower than consensus estimates. This was attributed to a mean reversion after a strong September report and was affected by UAW (United Auto Workers) strikes, expected to be a one-off event. The unemployment rate rose to a new post-tightening cycle high of 3.9%, as the labor market is continuing to gradually normalize. Average hourly earnings (AHE) registered a 0.2% mom gain, surprising expectations to the downside for a third consecutive report. In our view, this report will mean that the Fed will prefer to remain patient in light of expectations of data normalization following robust output growth in the third quarter. The ongoing slow down in wage growth momentum should be welcome news as well for Fed officials given that even with still above-trend job growth, wages are not seeing upward pressures.

Meanwhile, recurring applications for US unemployment benefits rose for a seventh straight week. Continuing jobless claims, increased to 1.83 million in the week ended Oct. 28, the highest since mid-April, according to Labor Department data. Initial claims ticked lower to 217,000 in the week ending Nov. 4. The four-week moving average, which smooths out some of the volatility in the weekly data, rose to 212,250.

China experienced an unexpected 3% increase in imports from a year earlier in October. This marks the first gain in eight months and suggests a potential pickup in domestic demand. The rise in imports could be an indicator of recovering economic activity within the country. Despite the positive trend in imports, overseas shipments from China dropped by 6.4%, which was worse than expectations. This decline in exports is viewed as a disappointment, especially considering the favorable comparison to the same period in 2022 when the pandemic disrupted logistics and production.

Indonesia's gross domestic product (GDP) expanded by 4.94% in the third quarter, falling short of the 5% median estimate from analysts. This marks the slowest growth pace in two years, and the economy grew 1.6% from the previous quarter, also below survey estimates. Government underspending, with a 3.76% fall in spending during the July-September period, has been a significant factor affecting economic growth. This halted seven straight quarters of above-5% growth.

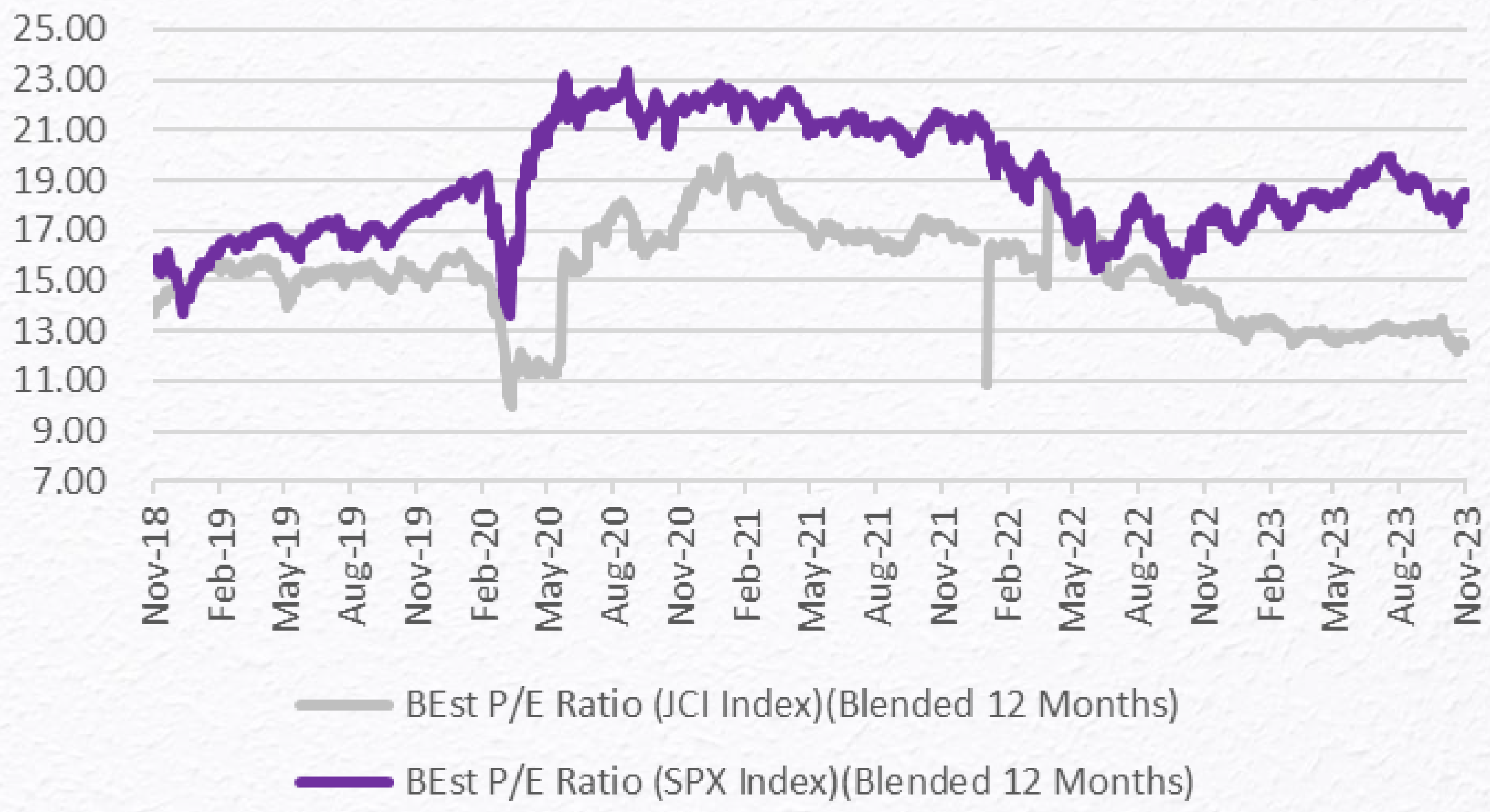
US Average Hourly Earnings Growth YoY | Source: Bloomberg

Equity
More Concerns

JCI rebounded slightly by 0.3% last week, driven by infrastructure sector which posted gain of 9% wow. Tech followed with an advance of 2.5% wow, and transport with 0.8% wow. The laggard sectors were consumer cyclicals which declined -1.7% wow, industrials -1.4% wow, healthcare -1.0% wow, basic materials -0.94% wow, and energy -0.93% wow.

Investors in the Indonesian equities market remain cautious as GDP data showed some slowing down in 3Q, and as Powell hinted that rate hike is still on the table. The Indonesian Rupiah strengthened during the week but retreated slightly, reaching close to 15,500 before settling around 15,700. Major energy commodities experienced weakness, with crude oil declined around 5%, natural gas declined around 2%, and coal showing minor gains. Metals had mixed performances. Large-cap banks declined as concerns on cost of fund resurfaced, auto stocks declined as some slow-down in auto sales is expected in the next few quarters, coal and metal mining names declined as concern on China growth resurfaced after weak exports data.

We view that the optimistic macroeconomic view in developed markets is already well-reflected in market pricing. This includes the expectation of higher-for-longer interest rates and a recognition of higher neutral rates compared to the last economic cycle. Dollar strength is also seen as a persistent feature in the market. Despite the positive macro outlook, the resilience of risk assets is noted, indicating that valuations for equities in DM don't appear too attractive. Emerging markets (EM) have the potential to outperform if inflation in US eases more rapidly, and central banks cut rates more quickly than anticipated.



JCI PE Ratio vs S&P 500 PE Ratio | Source: Bloomberg

Fixed Income
Better Sentiment

Sentiment in the bond market has strongly rebounded in the first week of November as buying appetite emerged, reflected by declining in UST yield where the 10-year tenor fell to around 4.5% from its highest 5% in the month of October, before it climbed to 4.65% last friday. The FED as broadly expected by market participant hold its interest rate for the second consecutive FOMC's meeting at 5.25%-5.50%. In addition to that, the US jobs market continued to moderate. However, the volatility remains in the past few trading days as the FED's chair remains relatively hawkish on the short-term US inflation outlook.

From the domestic market, the pressure on the domestic market was also somewhat less than in the month of October where the 10-year benchmark traded the highest at 7.30% and already declined to around 6.7%-6.8% last week. In a week basis, Indobex Government Total Return Index, slightly in positive territory by 0.08% and 1.19% in MTD basis, mainly driven by foreign investors which have been accumulating IndoBG by around IDR 10 tn up to 8 November 2023.

This week, all eyes will be on the US CPI data readings. The consensus estimates that the US CPI would decline with headline at around 0.1% MoM (vs

0.4% MoM in previous month) and 3.3% YoY (vs 3.7% YoY in previously).

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