

DEAR INVESTOR,

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FUND MANAGER'S LETTER
OCTOBER 1ST WEEK, 2023



Macroeconomics

Entering Higher Cost of Capital World

The turmoil in global markets continued last week, with the 10yr Treasury yield climbing to a new cycle high of 4.6%. That was partly supported by oil prices, with Brent Crude touching \$97/bbl last Thursday before ending the week at 93. And as US rates turned higher, so too did the dollar index, which is also at its highest level since November, ending the week at 106. Last week was also colored by worries of potential US government shutdown, with US House and Senate not being able to agree on a funding extension until the last minute on Saturday night. The big story in recent weeks was the bond sell-off, which sent Bloomberg's aggregate

global bond index down to its lowest level of 2023 so far. This has the potential of being passed through to the real economy as well, since the MBA (Mortgage Bankers Association)'s weekly update of 30yr mortgage rates climbed another 10bps to 7.41%. That's their highest level since December 2000. We believe that this move higher in yields signal a new era for global financial markets, that is one of higher cost of capital.

China's property crisis is not over yet, as China Evergrande Group's long-awaited debt restructuring encountered troubles last week, sending a warning

to investors at home and abroad who had been hoping to see a way out of the nation's property crisis. Evergrande said it has to revisit its debt restructuring plan and a unit missed a yuan bond payment.

While the US has so far appeared to dodge the recession that most economists at the beginning of the year thought was inevitable, many other countries in the world now appear to be on the brink of a slowdown.



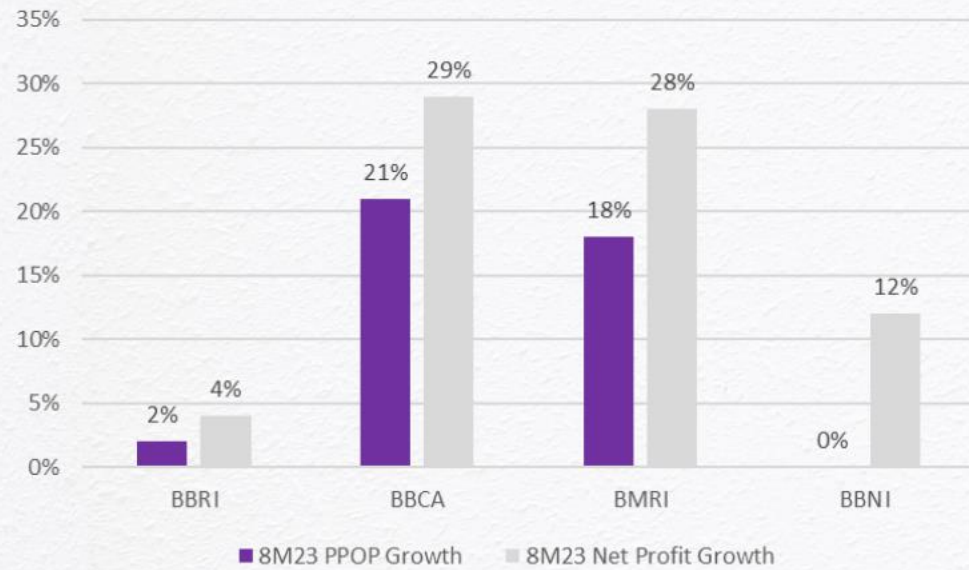
US 30 Year Mortgage Rate | Source: Bloomberg

Equity Going Nowhere

JCI declined 1.1% last week, seems to be going nowhere whenever we reach the 7000 level. Basic materials, infrastructure, and energy were the laggards, with declines of -3.2%, -2.2%, and -1.3%. Commodities prices were mixed with crude oil continuing their rally, went up another 2%, while nickel declined -3.7% and copper increased 0.6%. Consumer staples were the best performer with increase of 0.9%, followed by transportation and logistics with 0.6% increase.

Big banks posted their 8M23 results last week and, except for BBRI, their earnings growth have stayed at double digit rates. BBCA booked 29% yoy

earnings growth in 8M23, supported by 22% NII growth and declining provisions. BMRI booked 28% earnings growth supported by 14% NII growth and declining provisions. BBNI booked 12% earnings growth supported by declining provisions even though NII only increased 3%. Meanwhile BBRI booked 4% earnings growth as NII declined 1% and their ytd provision decline was not as big as peers. Going forward, we view that each bank's ability to manage cost of funds increase amidst tighter liquidity environment, as well as managing their asset quality exposure to mass market segments will be crucial in maintaining earnings growth momentum.



Big 4 Banks' 8M23 PPOP and Net Profit Growth | Source: Bloomberg

Fixed Income Negative Global Sentiments

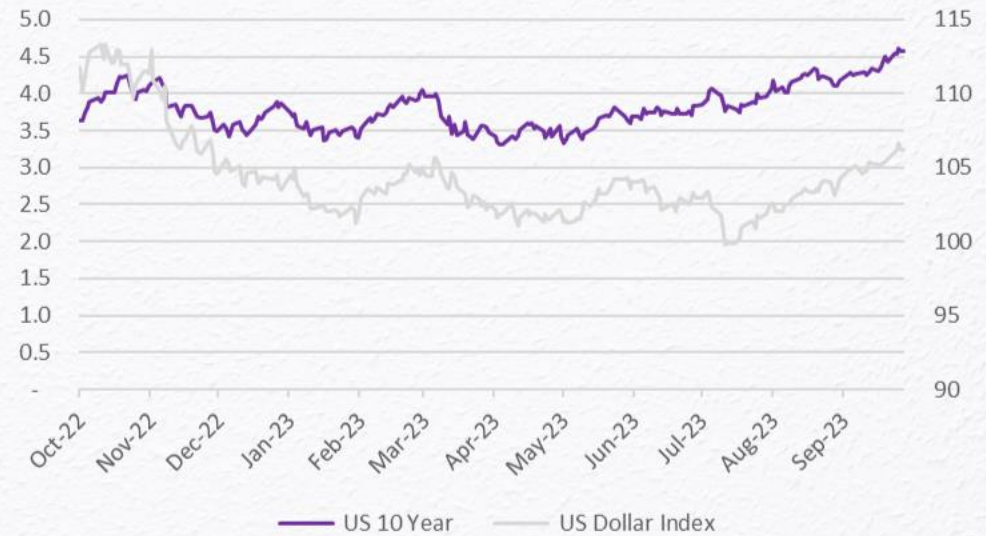
In the final week of September 2023, domestic bond market is still shadowed by some global sentiments, including higher US Treasury yield and strong dollar index. US Treasury yield was reported to touch its highest last week level at 4.67%, up by more than 40 bps since the beginning of the month. This also marked new multi-years high yield level since September 2006.

Therefore, the spillover of the uncertainty in the US bond markets, brought risk-off mode, including in IndoGB where the yields move higher by 4-11 bps across the curve in the past week. Last Friday, the 10-year benchmark yield closed at 6.91%, up by 20

bps from a week earlier and 55 bps higher from beginning of the month. However, the spread of IndoGB 10-year and US Treasury-10 year has been remain relatively stable at 330 bps.

Looking at the flow data, month-to-date up to 27 September 2023, foreigners have reportedly sold its position by IDR 16.8 tn, resulting in its ownership holding in IndoGB fell to 15.1% from 15.37% in previous month. In addition to that, onshore bank also reportedly sold nearly IDR 36 tn. However, please note that the mentioned lower holdings position both from foreigners and onshore banks are partially impacted by the maturity of PBS019

and SR13 amounted IDR 43 tn and IDR 25.7 tn, respectively. Strong demand still came from Insurance & Pension Funds with accumulated buy of IDR 15.2 tn and participation from individual also remain strong, reflected by the latest issuance of retail bond series SR019 where the government decided to issued IDR 25.3 tn.



US 10 Year Yield and US Dollar Index | Source: Bloomberg



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