

STAY INVESTED

Avrist Asset Management Team

MARKET AND PRODUCT UPDATES
MAY 2023

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Macroeconomic Outlook



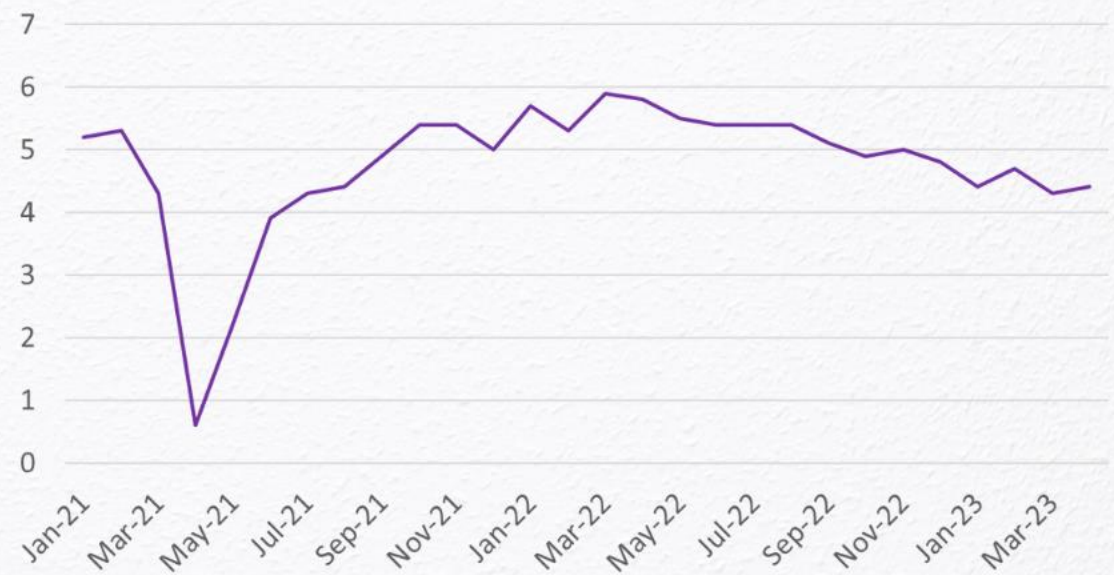
US Jobs Market Finally Weakening

US jobs market finally show signs of weakening in the past months, nonfarm payroll have continued its downward trend while average hourly earnings also drifting down. In early May, report of weekly jobless claim also shows the highest number since October 2021 at 264,000.

US Nonfarm Payroll



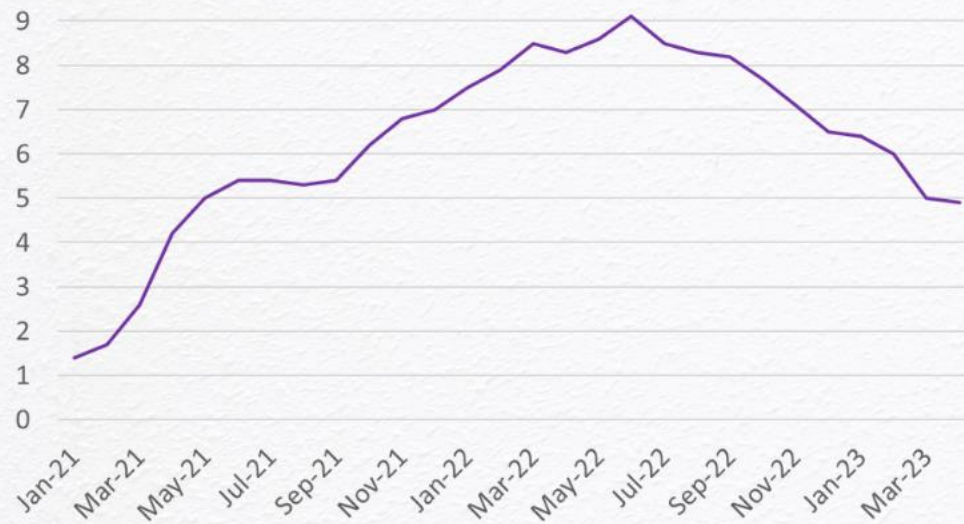
US Average Hourly Earnings



Headline Inflation Trending Down But Not Core

Inflation is still a problem as the Core CPI of 5.5% is still much higher than Fed's target of 2%, however headline US CPI is showing clear down trend and is now below 5%. Consumers' expectations of long term inflation is also still elevated, as five-to-ten year inflation expectations rose to 3.2%

US CPI YoY



US Core CPI YoY



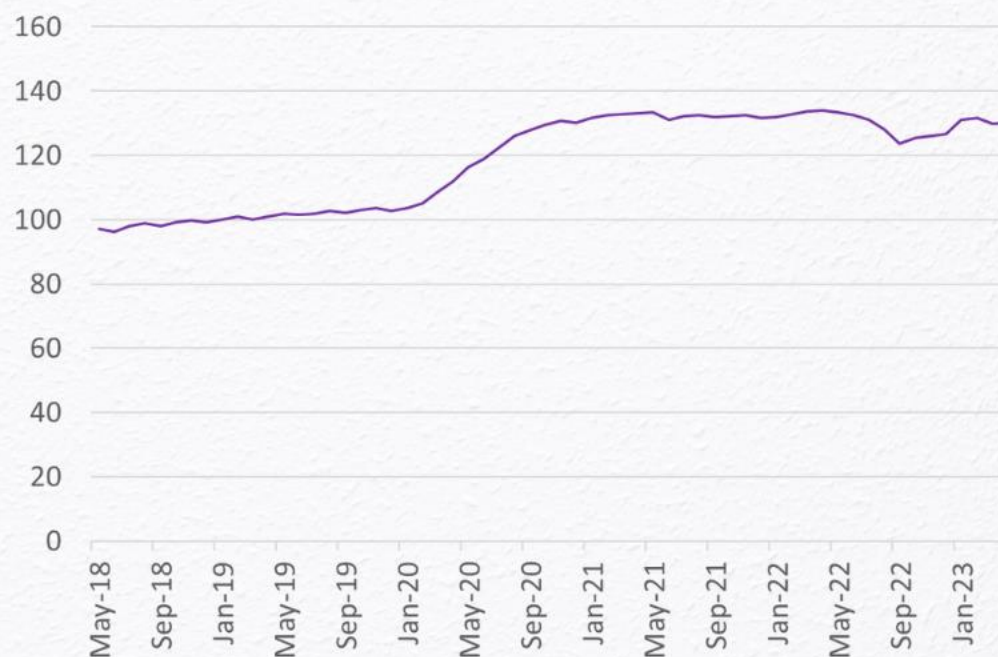
Liquidity Still Quite Favorable To Markets

Fed Balance Sheet have paused its recent decline from the high last year, as the regional banking crisis forces The Fed to provide liquidity, this has been a support for markets. BOJ also haven't done significant reductions in its balance sheet and we also note that ECB balance sheet's pace of decline is softening.

Fed Balance Sheet % to GDP



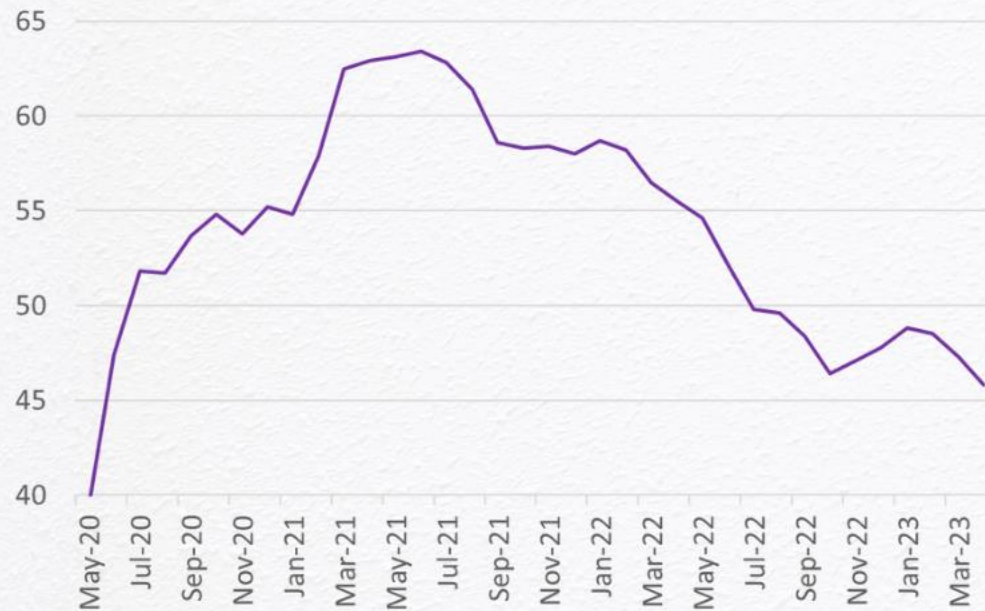
Bank Of Japan Balance Sheet % to GDP



Eurozone Manufacturing Sector and Inflation Weakening

Euro area's economic momentum was largely supported by resurgent service-sector activity, as the eurozone composite PMI increased from 53.7 to 54.4 in April. Meanwhile, the manufacturing PMI showed slight decline in April, and it is still below 50. On the bright side, inflation is continuing its downward trend as ECB continue being the most hawkish central bank in DM.

Euro Manufacturing PMI



Euro CPI YoY & ECB Deposit Rate



China Economy Showing Mixed Data

China's economy is the great puzzle of 2023 and so far it has continued to disappoint. Even though gross domestic product expanded 4.5% yoy last quarter, April data points at a big loss in recovery momentum, with retail sales growth, industrial output, and manufacturing PMI missing expectations.

China Retail Sales YoY



China Manufacturing PMI



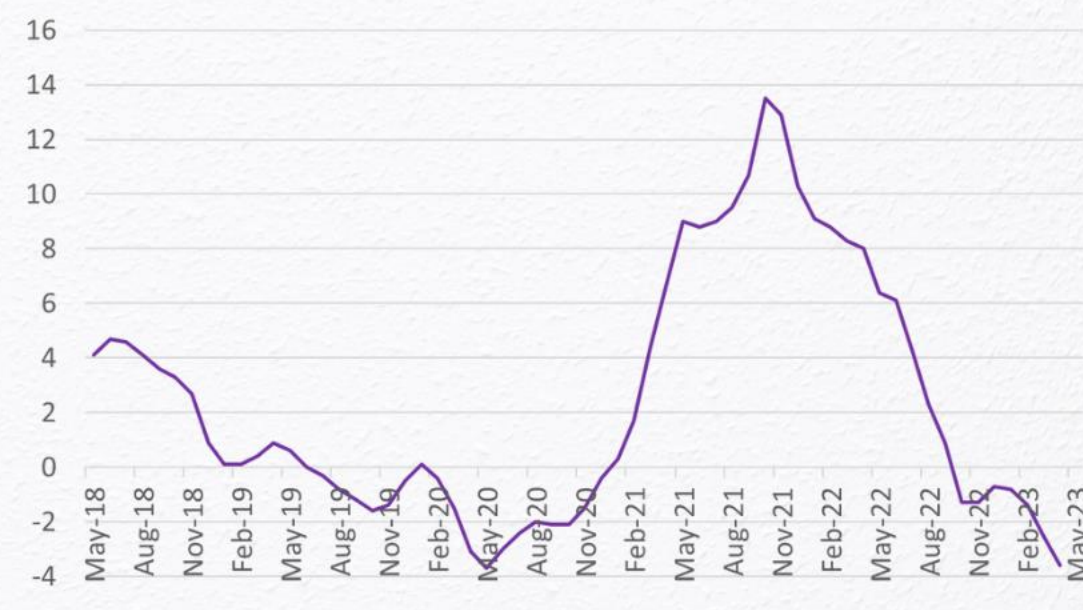
Weak Inflation in China

The worries on China is further compounded with the release of weak inflation. Deflation in PPI data brings concerns of weak demand in China and globally. Consumer inflation weakened to a two-year low of 0.1% in April, as food and energy costs eased. We note that the figures were partly affected by the high base of comparison from last year. Producer prices fell 3.6%, largely due to lower commodity costs.

China CPI YoY



China PPI YoY



Commodities Still Facing Headwinds

Commodities prices decline has been continuing and copper gold ratio show that global economic outlook is not looking good at the moment. However we view that structural supply issues in many commodities is still not solved and commodities may come back if global economic picture starts to brighten.

Bloomberg Commodities Index



Copper – Gold Ratio



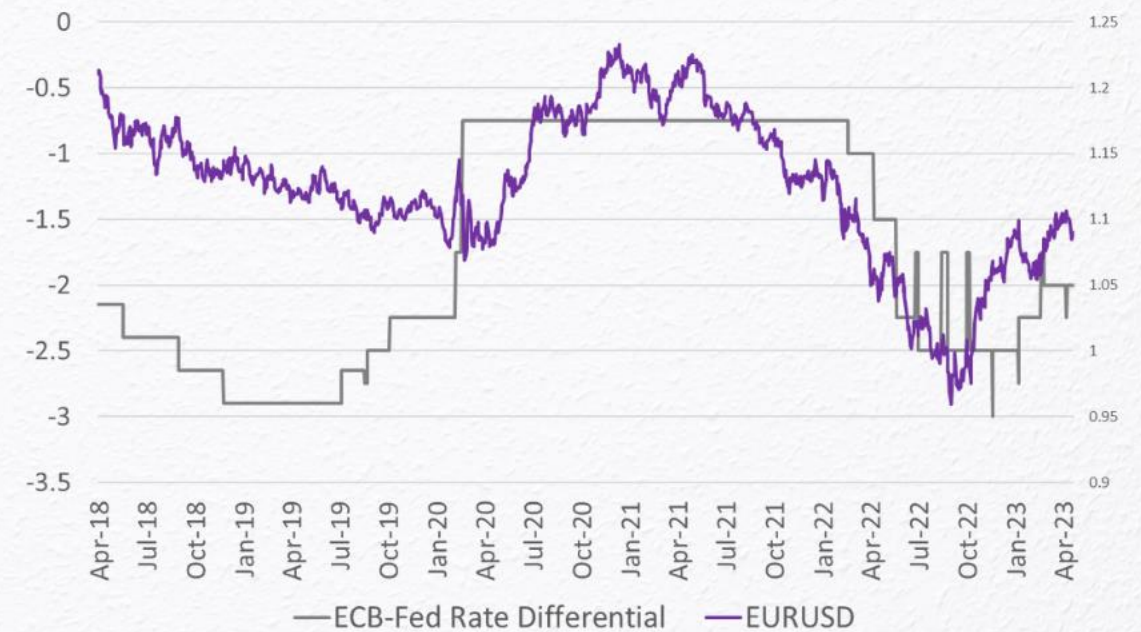
King Dollar Facing Pressure

The US Dollar has finally peaked and on a downward trend, supported by strengthening Euro, as Fed expected to pause while ECB continues rate hikes. This weaker dollar has supported EM currencies and local government bonds.

US Dollar Index



EURUSD vs ECB-Fed Rate Differential



Indonesian Inflation Has Been More Benign

In Indonesia, focus turns to whether the central bank can pivot to easing mode, as core inflation has slowed down faster than expected. Meanwhile, GDP growth is still expected to grow close to 5%, even though how hard exports will get hit depends on the magnitude of global slowdown.

Indonesia GDP YoY



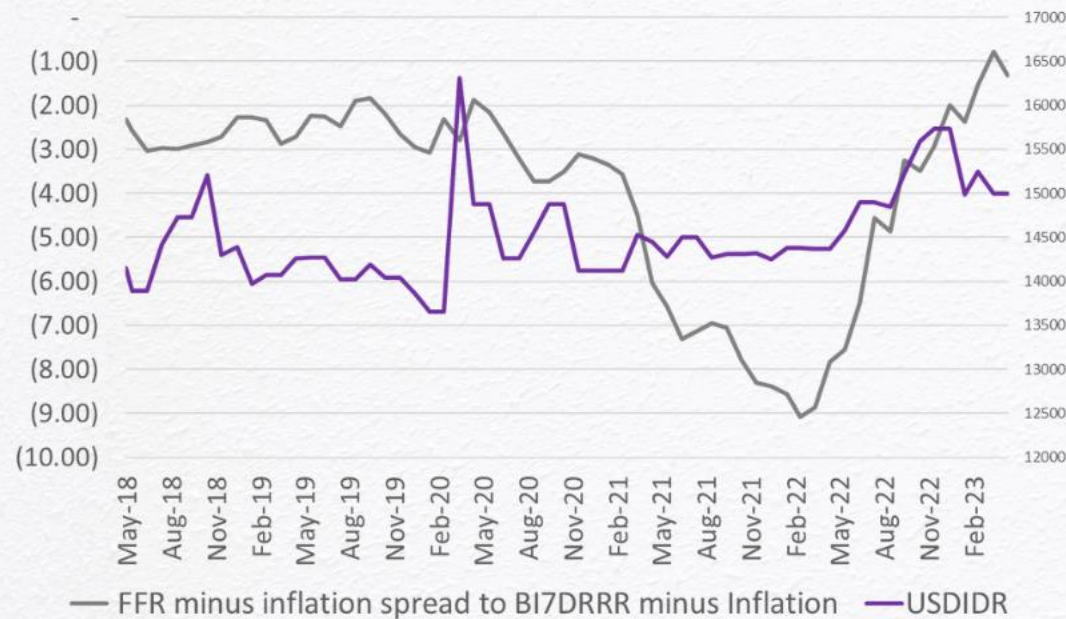
Indonesia Core Inflation YoY



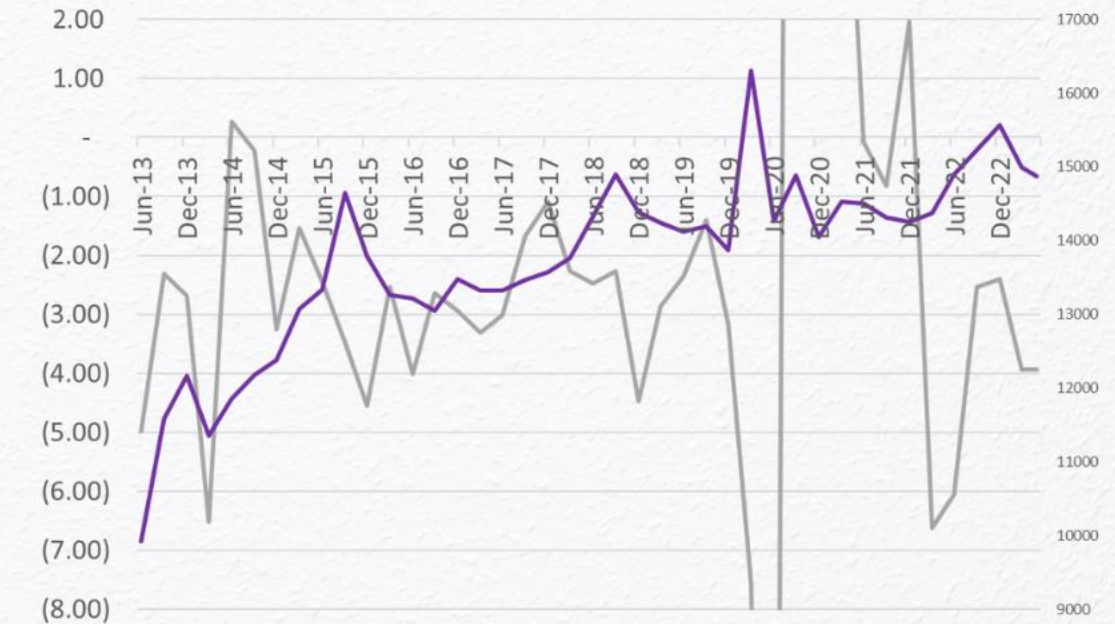
USDIDR Lifted By Weaker Dollar

Indonesian Rupiah has been strengthening, supported by expected widening of US and Indonesia GDP growth differential as US slows this year.

USDIDR vs US-Indo Real Rate Differential



USDIDR vs US-Indo GDP Growth Differential



Indonesia's Macroeconomic Projection and Historical Data

Indonesia Macro	2021	2022	2023	2024
Real GDP	3.7	5.3	4.9	5.0
CPI	1.6	4.2	4.0	3.1
CA % GDP	0.3	1.0	(0.1)	(0.6)
Budget % GDP	(4.6)	(3.6)	(2.8)	(2.7)
BI 7DRRR	3.50	5.50	5.65	4.80
Indo 10 Yr Yield	6.38	6.94	6.58	6.29
USDIDR	14,263	15,573	14,650	14,500

Source: Bloomberg

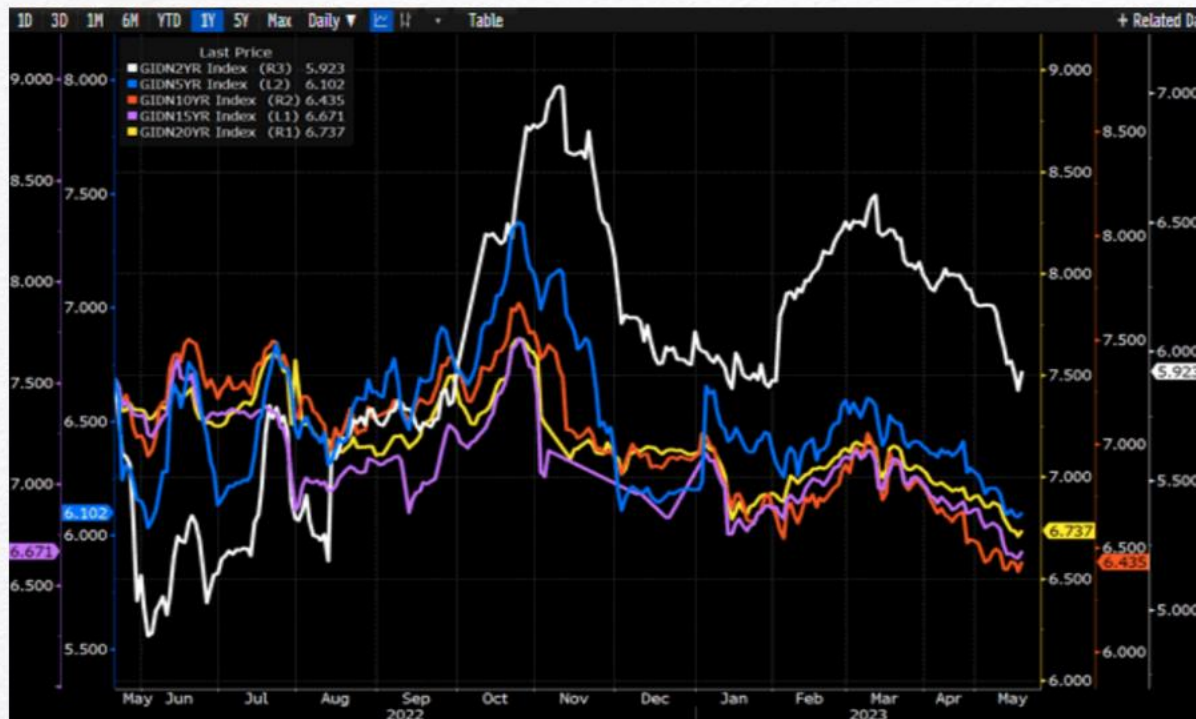
Bonds Market Outlook



Domestic Bond Market has been Showing a Remarkable Performance

Indonesia government bond yield continue to decline on the back of solid macro fundamental and strong support from onshore & offshore investors

IndoGB Yields Change - May 2022 - May 2023



Source: Bloomberg & IPBA 19 May 2023

Domestic Bond Market has been Showing a Remarkable Performance

IndoGB Yield Change by Tenor - YTD

Tenor	Yield		Change	
	30-Dec-22	19-May-23	Bps	%
1	5.52	5.79	27	4.9%
2	5.93	5.88	(5)	-0.9%
3	6.22	5.97	(24)	-3.9%
4	6.42	6.07	(36)	-5.5%
5	6.58	6.16	(42)	-6.4%
6	6.70	6.25	(45)	-6.8%
7	6.80	6.33	(47)	-6.9%
8	6.88	6.41	(48)	-6.9%
9	6.95	6.47	(48)	-6.9%
10	7.01	6.54	(47)	-6.7%
11	7.06	6.59	(46)	-6.6%
12	7.10	6.64	(46)	-6.4%
13	7.13	6.68	(45)	-6.3%
14	7.16	6.72	(44)	-6.2%
15	7.18	6.75	(43)	-6.0%

16	7.20	6.77	(43)	-5.9%
17	7.21	6.79	(42)	-5.8%
18	7.22	6.81	(41)	-5.7%
19	7.23	6.83	(41)	-5.6%
20	7.24	6.84	(40)	-5.6%
21	7.25	6.85	(40)	-5.5%
22	7.25	6.86	(39)	-5.4%
23	7.26	6.87	(39)	-5.4%
24	7.26	6.87	(39)	-5.3%
25	7.26	6.88	(39)	-5.3%
26	7.26	6.88	(38)	-5.3%
27	7.27	6.88	(38)	-5.3%
28	7.27	6.89	(38)	-5.2%
29	7.27	6.89	(38)	-5.2%
30	7.27	6.89	(38)	-5.2%

Relatively Resilient to Global Pressure

The Indonesia 10-yr yield spread to UST 10-yr has consistently narrow in the mid of global turbulence, and touched the lowest at below 280 bps

Yield Spread to UST



Source: Bloomberg 19 May 2023

Tightening Corporate Credit Spread

Credit spread for corporate bond tend to tighten, specifically for the lower rating space. It could be a sign that investors are more confident to add exposure on riskier asset class

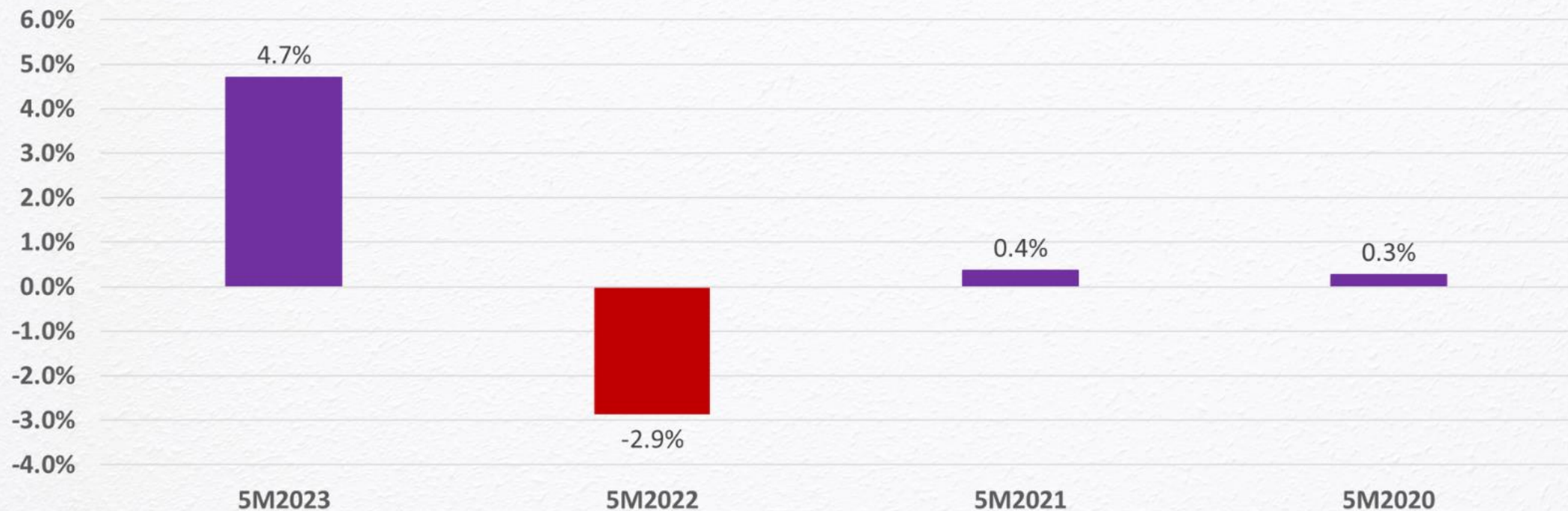
Credit Spread Comparison by Rating & Tenor

Tenor	AAA			AA			A			BBB		
	30-Dec-22	19-May-23	Change	30-Dec-22	19-May-23	Change	30-Dec-22	19-May-23	Change	30-Dec-22	19-May-23	Change
1	27	51	23	97	90	(8)	217	203	(14)	430	398	(32)
3	49	57	8	134	121	(14)	245	238	(8)	446	444	(1)
5	60	63	3	148	144	(4)	259	278	19	484	495	12

Should Provide Better Return This Year

Since beginning of the year, domestic bond provided around 4.7% of gross return, the highest in the same period of past four years

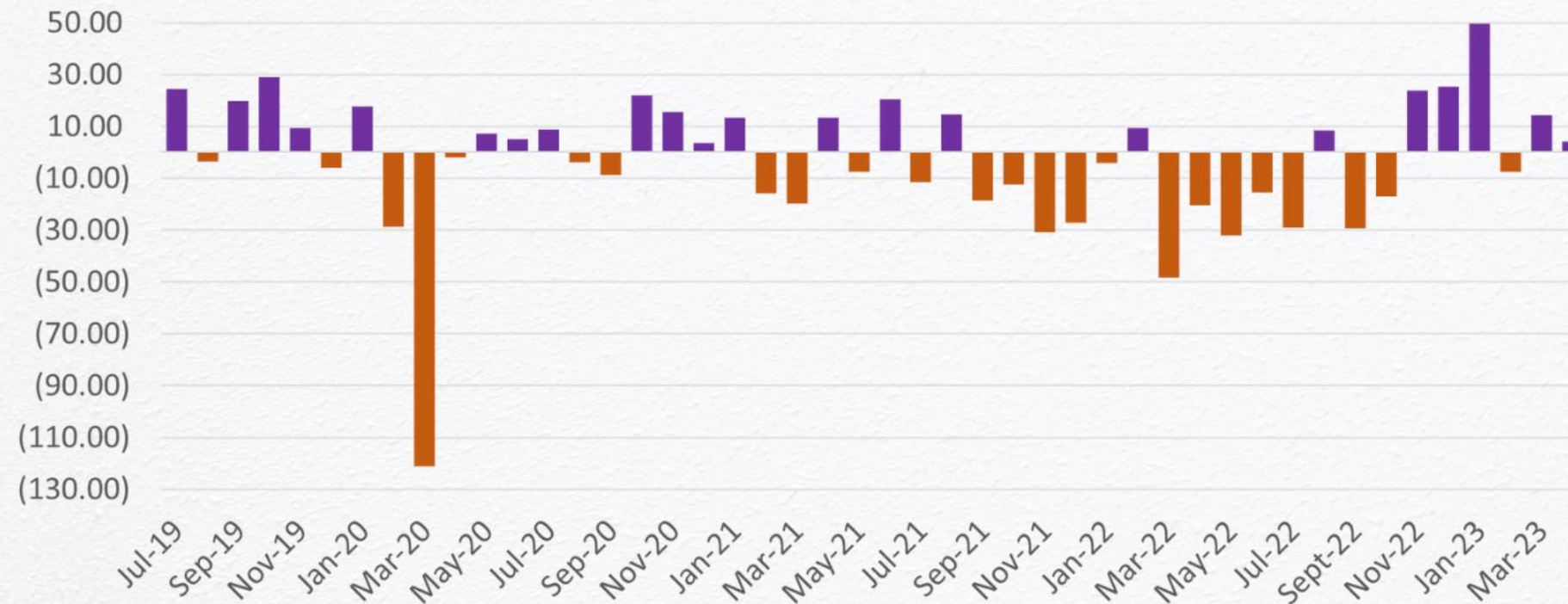
Comparison of Historical Gross Return - Indonesia Composite Bond Return (30 Dec – 19 May)



Foreigners Are Back!

Up to end of April-2023, total foreign inflows reported IDR 60.5 tn, and we expect it will continue to be one of the key support to Indonesia bond market as current foreign holding remain below its historical average.

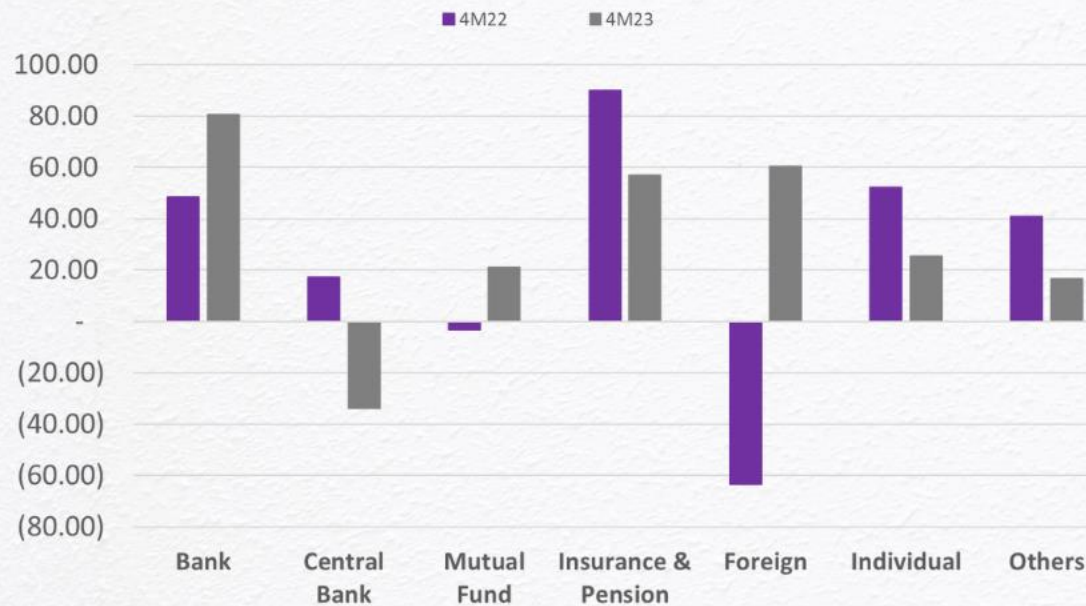
Foreign Flow – IDR tn



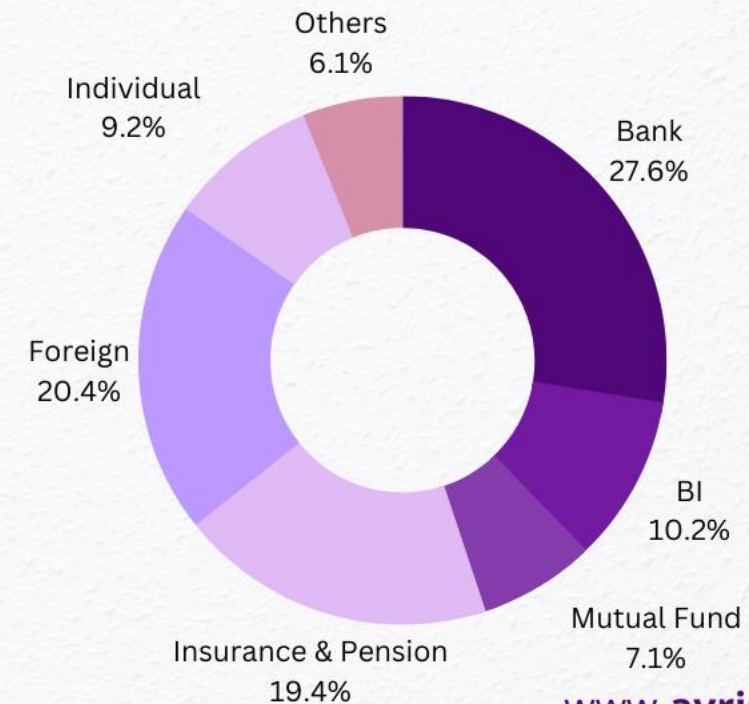
Onshore Support Remain Solid

Participation of local investor also remain high both from institution and individual, reflected that domestic liquidity remain ample

USDIDR vs US-Indo Real Rate Differential



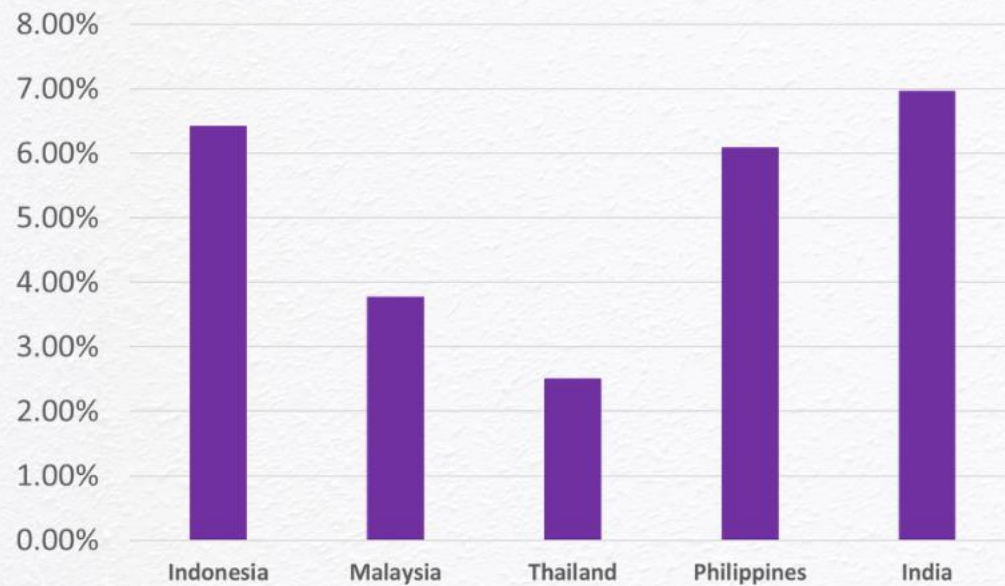
USDIDR vs US-Indo GDP Growth Differential



IndoGB Provides Attractive Valuation

Compared to other peers countries in the region, Indonesia bond market is still providing attractive valuation both in term of nominal & real yield. This is one of the key factor to bring more foreign inflows going forward

Comparison of EM's Nominal Yield - %



Comparison of EM's Real Yield - %

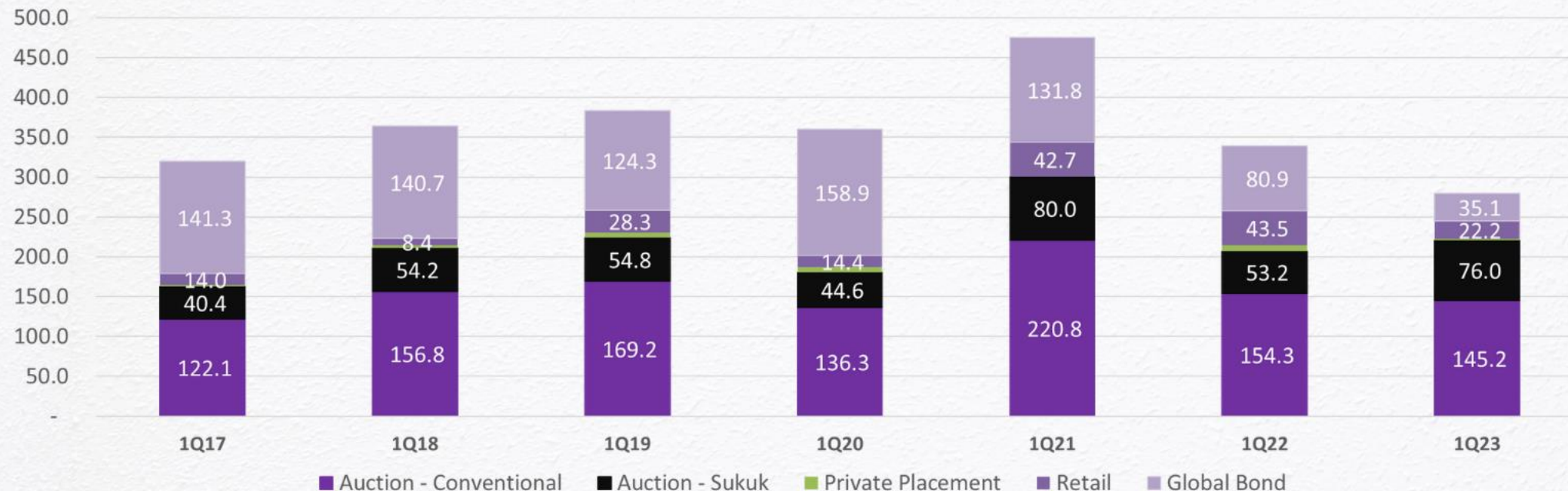


Source: Bloomberg 19 May 2023

Supply Risk Should Be Manageable

In the second quarter of this year, the government only set target issuance from regular auction at IDR 130 tn, much lower compared to realization IDR 279 tn in previous quarter. In addition to that, some of government bond series will mature in 2Q23 amounted to IDR 158 tn. The government will have flexibility in funding strategy as excess budget (SILPA) amount remain high at around IDR 332 tn

Historical Government Bond Issuance – IDR tn



Equity Market Outlook



JCI Valuation Compared to Global Peers

JCI is still more attractively valued than its global counterparts. We view catalyst for JCI to rally as : 1) Continued strong economic growth and earnings results; 2) Potential end to US Fed hawkishness and recession worries; 3) BI shifting to more pro growth stance

JCI PE



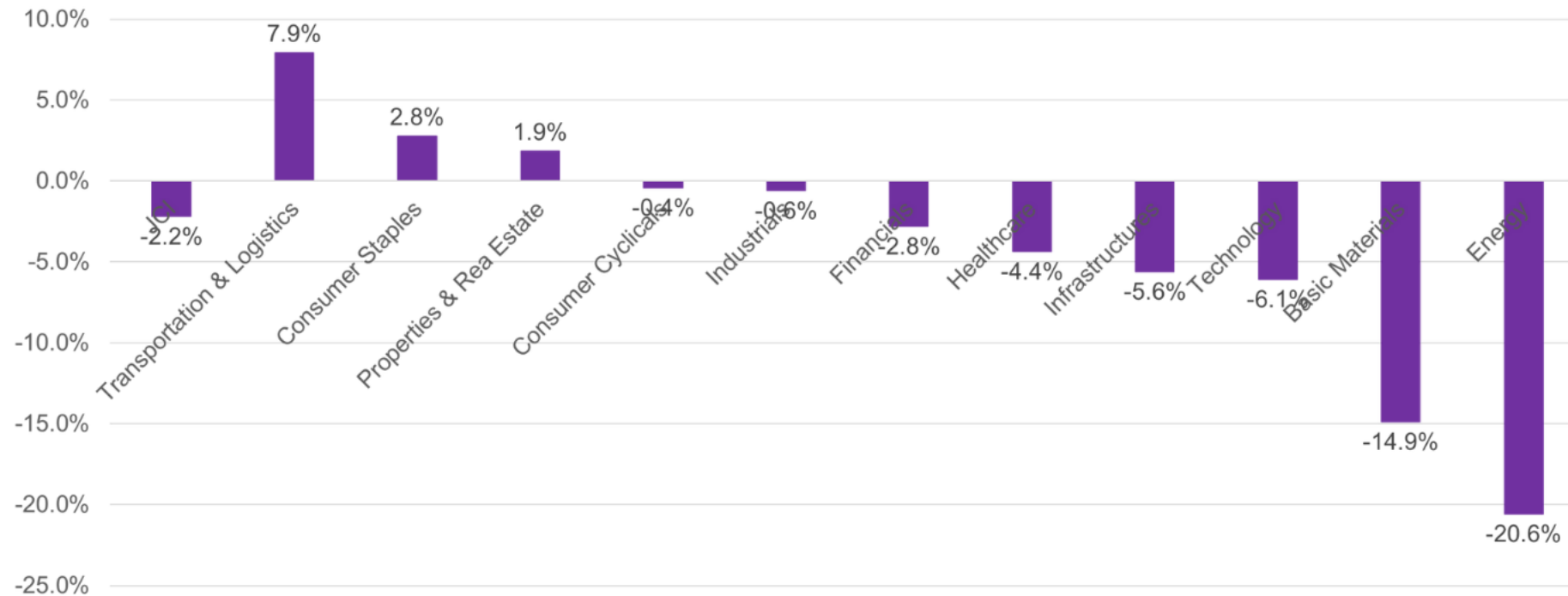
MSCI ACWI PE



JCI Ytd Performance by Sectors

JCI is down 2.2% ytd (price return) and the best performing sectors ytd are transportation & logistics, consumer staples, and properties. We view that potential margin improvement and pricing power in consumer sectors will still maintain staples' outperformance.

JCI Return by Sector Ytd 19 May 23



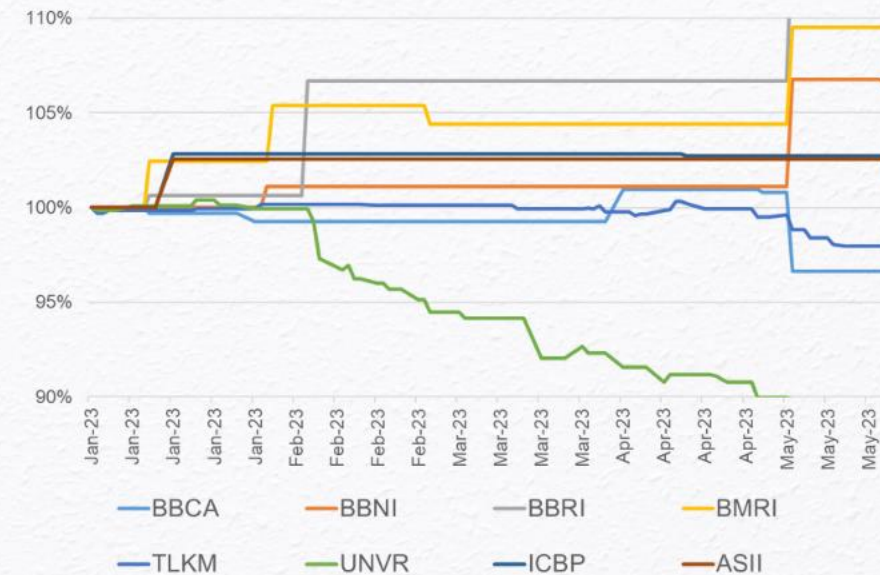
JCI Earnings Estimates

JCI earnings estimates for 2023 have been revised upwards after good results generally reported in March (4Q22 results) and estimates overall have been maintained in April (after 1Q23 results). Big banks and ASII's earnings have been upgraded.

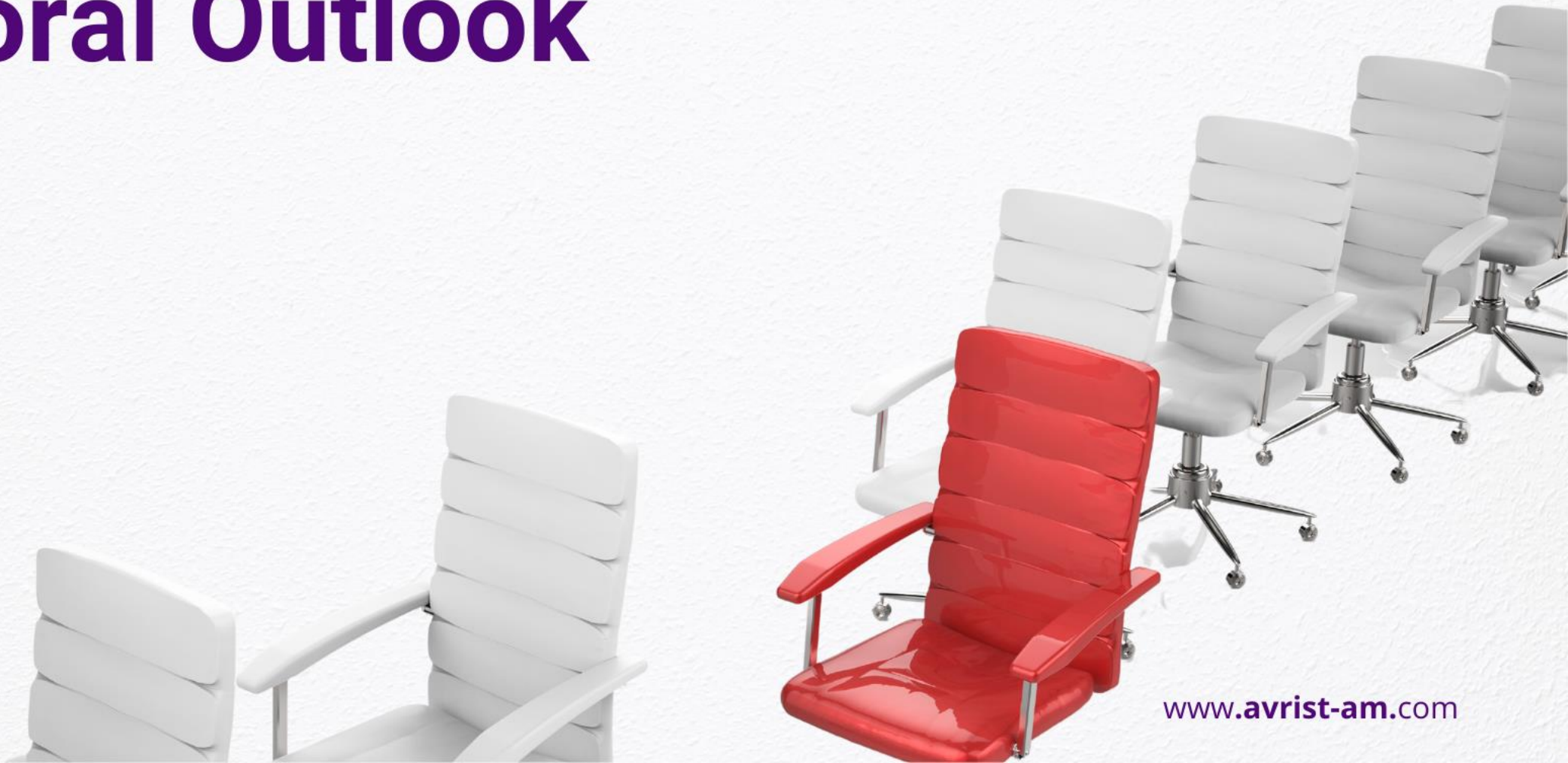
JCI Index 2023 Earnings Estimates



Earnings Revision Trend



Sectoral Outlook

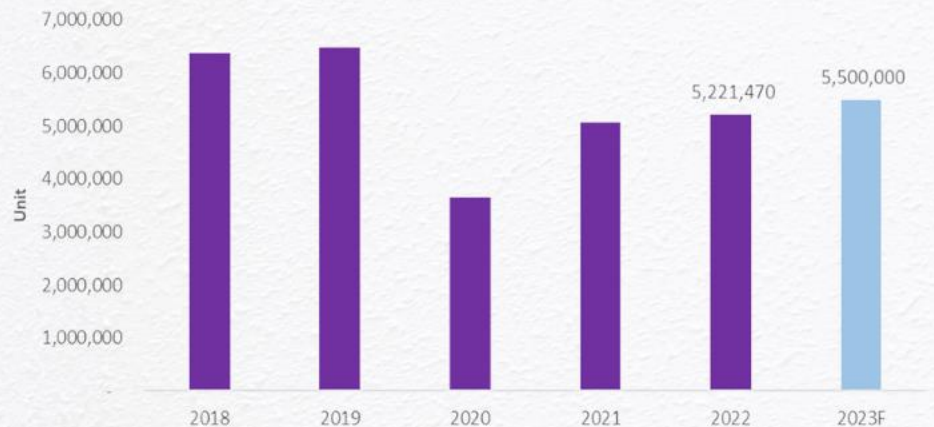


Automotive Sector (Overweight)

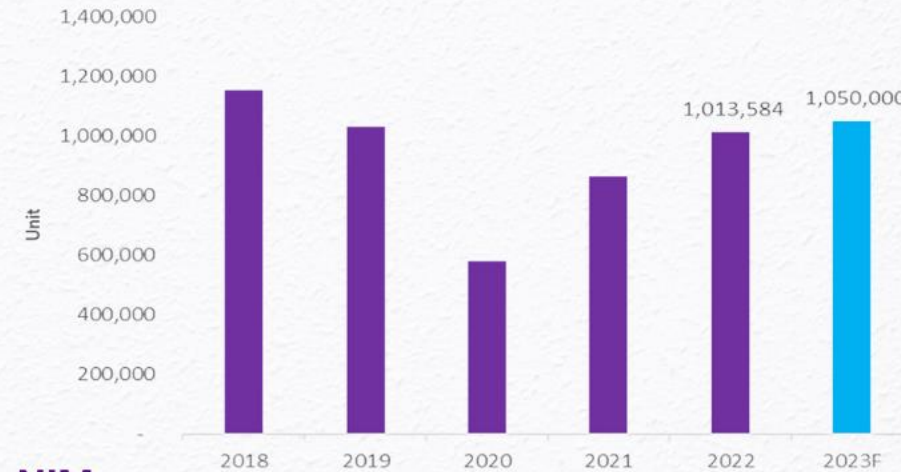
EV trend still be main theme

- Gaikindo revised the 4W sales projection in Indonesia from 975k to 1.05 million unit for 2023F.
- 2W sales in Indonesia is expected to grow up to 6% in 2023.
- Incentives related to EV might catalyze overall industry sales.

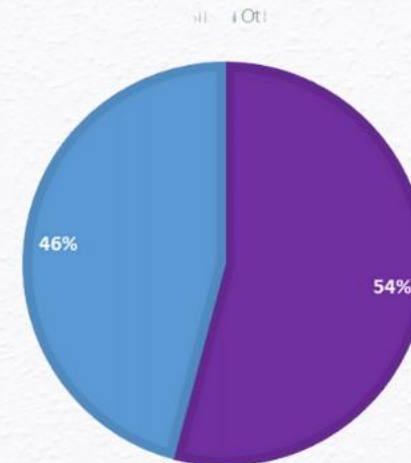
2w sales in Indonesia



4w sales in Indonesia



NIM

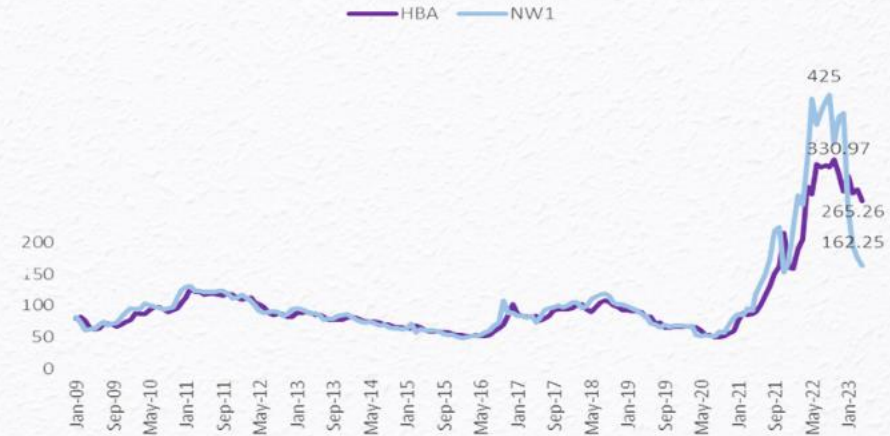


Coal Mining (Overweight)

Normalization but still in high level price

- We expect coal price (Newcastle) to overall be lower in FY23 than in FY22, however it should remain above 100 USD, as overall energy commodities are also still in higher price levels.
- Indonesia coal export will growth supported by China re-opening and India demand amid distribution problem in India.

Coal price still in high level



Revenue growth still good



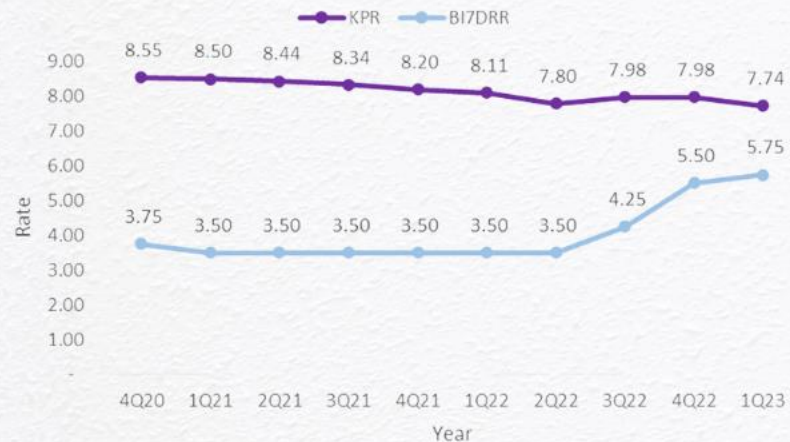
Indonesia coal export still growth especially to China and India



Property Sector (Overweight) Overall good, it's property time

- Mortgage rate tend to decrease supported by BI rate paused at 5.75%.
- LTV easing until 100% will impact to property demand increase.
- IHPR increased to 106.75 or change +1.79% (yoy) as a good indication on property price especially residential.

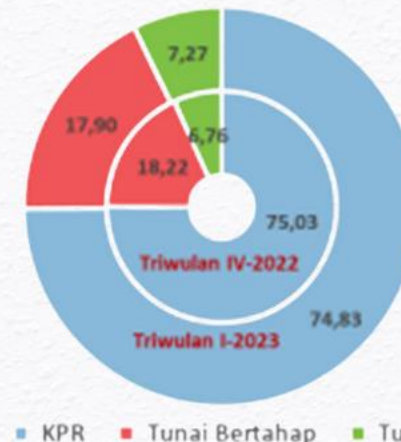
Mortgage rate continue decrease and the BI rate peaked



Good result in 1Q23 especially BSDE



Most the home purchased through mortgage scheme



Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Auto-motive	Over-weight	<ul style="list-style-type: none"> • Good result in 1Q23 with attractive valuation • 4W and 2W sales still higher over previous year 	<ul style="list-style-type: none"> • Domestic consumption rebound continuing in 2023 • EV incentives give support to overall 4W and 2W sales • Political year could impact to demand of 4W and 2W 	<ul style="list-style-type: none"> • Crowded competition in the automotive industry • Vehicle tax in every 4W and 2W purchase
Banks	Over-weight	<ul style="list-style-type: none"> • Strong GDP growth (still close to 5%) will support loan growth, in our view • Big banks' good CASA condition may be potential catalyst for NIM improvement 	<ul style="list-style-type: none"> • Probability of higher than expected NIM for big four banks • Loan growth still double digit • Strong liquidity condition 	<ul style="list-style-type: none"> • Negative sentiment from US and European banks • Data security issue like BSI

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Construction	Underweight	<ul style="list-style-type: none">Lack of catalyst, as new capital city development will be gradual	<ul style="list-style-type: none">If new capital city development get sped up	<ul style="list-style-type: none">High debt ratiosNegative sentiment due to WSKT's debt restructuring
Cement & Basic Industries	Underweight	<ul style="list-style-type: none">Limitation of growth due to cement sales decline (ex- INTP)Cement supply surplus over the demand make cement price tend to decrease	<ul style="list-style-type: none">Coal DMO will impact to cement player efficiency	<ul style="list-style-type: none">Cement supply surplus tend happen in the long term

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Coal	Over-weight	<ul style="list-style-type: none"> Coal price is still in high level China re-opening and India coal import still high 	<ul style="list-style-type: none"> Corporate tax has a significant decline 	<ul style="list-style-type: none"> Coal royalty in progressive fee China's economic data still showed under expectation
Consumer Staples	Over-weight	<ul style="list-style-type: none"> Higher margin due to higher ASP and lower soft commodities prices Strong (double digit) revenue growth, supported by elections campaign 	<ul style="list-style-type: none"> Election campaign-related spending starting in 2H23 Lower soft commodities prices 	<ul style="list-style-type: none"> Stronger than expected economic growth can make markets reward more aggressive/cyclical sectors If commodities prices rebound, particularly soft commodities

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Energy Utilities (PGAS)	Under-weight	<ul style="list-style-type: none"> • Lower oil price will bring negative sentiment • Potential lower distribution margin spread and lower gross margin 	<ul style="list-style-type: none"> • Oil price rebound • Higher than expected distribution volume due to strong economic growth 	<ul style="list-style-type: none"> • Lower oil price • Further pressure on distribution margin from government
Heavy Equipment (UNTR)	Over-weight	<ul style="list-style-type: none"> • Solid result in 1Q23 by 24.69% (yoy) for revenue growth • Mining service continue increase due to some hard commodity is still in high price level 	<ul style="list-style-type: none"> • Potential rebound in coal price • Coal and gold price still in high level 	<ul style="list-style-type: none"> • Lower coal price from warm winter in Europe again in 4Q23 • Lower overburden volume

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Health-care	Neutral	<ul style="list-style-type: none"> The market may turn to more defensive sectors such as healthcare if DM recession happens SILO earning growth by 19.49% (yoy) in 1Q23 	<ul style="list-style-type: none"> Hospitals will be benefited by BPJS INA CBG tariff adjustment Recovery in non covid patient traffic continues 	<ul style="list-style-type: none"> If BPJS Kesehatan falls back to deficit
Metal	Neutral	<ul style="list-style-type: none"> China reopening has not brought the expected rebound so far, thus need to see better China economic data Concerns of DM recession pressure commodity prices 	<ul style="list-style-type: none"> Fed cut / pivot Strong China economic data 	<ul style="list-style-type: none"> Recession in US, Europe Weaker than expected China economic rebound Oversupply in class 2 nickel

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Oil & Gas	Neutral	<ul style="list-style-type: none"> Oil demand is projected to growth 2% in 2023, fueled by China; but so far China's recovery has been sluggish, and supply from Russia keeps surprising 	<ul style="list-style-type: none"> Fed cut / pivot Strong China economic data 	<ul style="list-style-type: none"> Recession in US, Europe Weaker than expected China economic rebound
Property	Over-weight	<ul style="list-style-type: none"> Good performance in 1Q23 supported by purchasing power improvement and BI rate peaked at 5.75%. 	<ul style="list-style-type: none"> Indonesia economic growth still robust Company expansion after Covid-19 	<ul style="list-style-type: none"> Political year Tightening mortgage lending

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Retail	Over-weight	<ul style="list-style-type: none"> The big events like festive and political year Purchasing power improvement 	<ul style="list-style-type: none"> Sales growth recovery to pre-pandemic levels Inflation continue decrease and close to the inflation target 	<ul style="list-style-type: none"> Higher wages bringing higher opex Competition risks
Telco & Tower	Over-weight	<ul style="list-style-type: none"> The big 3 mobile network operators have continued to increase prices in 1Q23 Consolidation in operators limit growth opportunity for tower cos 	<ul style="list-style-type: none"> Continued healthy pricing by operators Flight to defensives if DM recession happens 	<ul style="list-style-type: none"> Better than expected economic growth may make investors shift to more cyclical sectors If tower rent expenses increase

Source: Bloomberg, Companies, Avrist Asset Management

Summary

We are Positive on JCI Index

Sector	Rating	Thesis	Catalysts	Risks
Tech	Under-weight	<ul style="list-style-type: none"> • Era of low interest rate and abundant capital for tech companies is over, in our view, and these are consolidation times 	<ul style="list-style-type: none"> • Fed cut / pivot • Better than expected path to profitability 	<ul style="list-style-type: none"> • Fed staying hawkish for longer • Competition makes path to profitability more challenging

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