

MONTHLY REPORT: MARCH 2019

Fund Manager Commentary: M&A Wave, Mean-Reversal Effect

JCI's profitability has been declining in the last 5 years in line with JCI de-rating against regional market. Most of the reduction comes from squeezed margins rather than revenue. Intense competition and lower nominal GDP growth contributed to a lack of pricing power, whereas costs has been elevated.

The important aspects of costs are import cost and interest cost, which have been not supportive for the past 5 years. The Fed's normalization brought risks for deficit countries' currencies like IDR which is accompanied with high rates policy by BI driving up real borrowing costs. Going forward, despite we see an improvement for the latter, the upside is limited. Hence, margins will remain subdued, also because of disruption in the industry.

Nonetheless, JCI's profitability recovery is possible given that many industries started to consolidate. This theme is in line with the outperformance of high momentum stocks (past 3-12 months winners) in the past 2 years, which many of them are equipped with M&A or divestment issues (SMGR, SMCB, BDMN, BNLI, PNB, PNL, ISAT, GGRM, FREN and PGAS).

However, high momentum stocks typically suffers greatly during market late-cycle (e.g. 2H18, 2Q15, 2Q13-3Q13) due to mean-reversion effect. Given its relatively low correlation with market and value, the underperformance is also characterized by an increase in uncertainty on the idiosyncratic risk part. Both can be captured whenever the stocks' volatility increase is not accompanied by a proportional performance, in which the reduction on the momentum exposure is preferred.

Looking at the current condition, our market scoring remains at 2 (out of 4) since middle of February 2019, though we see a tactical shift to big caps. Hence, style-wise a pair of market proxy with high quality growth names is preferred, while value can resurface if risk appetite lingers. Technical-wise, we still see 6,500-6,600 as short-term profit taking level catalyzed by fund redemption and political risk.

Global Equity Indices	Changes (%)			
	YTD	1M	3M	1Y
IHSG (ID)	+4.61	+1.43	+6.42	+2.78
IDX30 (ID)	+3.60	+2.41	+4.68	-1.37
LQ45 (ID)	+3.73	+2.45	+4.96	-1.73
Jakarta Islamic Index (ID)	+3.06	+1.84	+4.92	-1.47
Indonesia Sharia Index (ID)	+4.31	+1.12	+6.36	+3.83
S&P 500 (US)	+13.97	+2.07	+11.27	+2.94
Dow Jones (US)	+12.37	+0.12	+9.84	+3.88
London (UK)	+8.77	+1.21	+8.14	+2.24
DAX (GR)	+11.07	+3.78	+8.87	-5.34
Nikkei (JP)	+7.75	+3.19	+0.28	-0.51
Hang Seng (HK)	+15.54	+5.61	+12.95	-6.46
Shanghai (CN)	+23.94	+15.23	+18.98	-5.47

	Inflation (% yoy)	CDS-5yr (bps)	NDF (%)	Trade Bal (USDmn)	Reserve (USDbn)
Last	2.82	111.05	8.31	-1,159.50	120.10
1yr-Avg	3.16	124.26	8.14	-741.58	120.49

Global Currency	Changes (%)		
	YTD	1W	1Y
USDIDR	+2.36	+0.23	-3.38
SGDIDR	+1.08	-0.14	-0.54
EURIDR	+3.28	-0.38	+4.84
JPYIDR	+3.14	+0.14	+1.65
USDJPY	+0.90	-0.09	+4.95
Gold (USD/t oz.)	+1.81	+0.62	-0.46
DX (G7/USD)	+0.01	-0.54	+6.84
ADXY (USD/Asian)	+1.19	+0.07	-4.38

Commodities	Changes (%)		
	YTD	1W	1Y
CRB Index	+8.13	+1.96	-4.94
Crude Oil (USD/bbl)	+31.06	+4.47	-4.70
Natural Gas (USD/MMBtu)	-12.69	+3.59	+7.29
COAL (Australia, USD/tonne)	-10.75	-4.63	-5.72
COAL (Rotterdam, USD/tonne)	-19.00	-3.07	-7.70
Aluminium (USD/tonne)	+4.33	+2.68	-7.99
Nickel (USD/tonne)	+21.37	-0.63	-4.42
Tin (USD/tonne)	+8.67	-0.70	+0.83
Silver (USD/t oz.)	-1.20	-0.57	-5.87
CPO (MYR/Tonne)	+2.33	+4.04	-15.50
Rubber (JPY/kg)	+5.35	-0.44	-0.77

Maybank Funds	Changes (%)			
	YTD	1M	3M	1Y
Maybank Dana Ekuities	+4.46	-0.43	+3.91	-1.79
Maybank Sector Rotation Equity Fund	+4.48	-0.15	+3.99	-0.83
Maybank Syariah Equity Fund	+5.17	-1.33	+3.47	-4.14
Maybank Dana Berimbang	+4.07	-1.48	+4.00	+10.40
MAM Balance Fund	+4.12	-0.64	+4.14	-
Maybank Dana Pasti 2	+3.28	+1.65	+3.69	+1.80
Maybank Dana Pasar Uang	+1.45	+0.50	+1.61	+5.84

Data as of March 19th, 2019

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