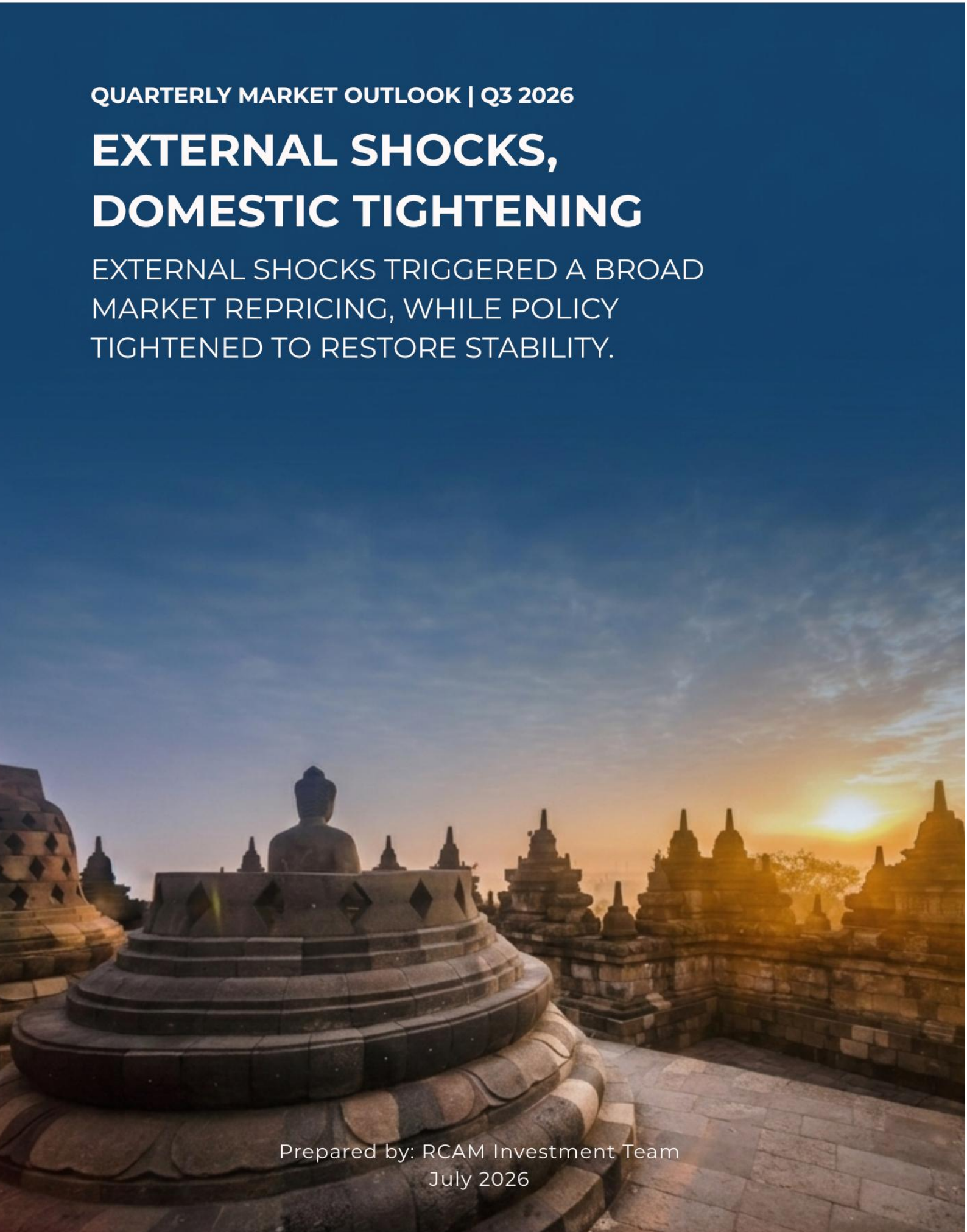
recapital
Asset Management

QUARTERLY MARKET OUTLOOK | Q3 2026

EXTERNAL SHOCKS, DOMESTIC TIGHTENING

EXTERNAL SHOCKS TRIGGERED A BROAD MARKET REPRICING, WHILE POLICY TIGHTENED TO RESTORE STABILITY.



Prepared by: RCAM Investment Team
July 2026

Executive Summary

The second quarter of 2026 extended the repricing that began in the first, but the balance of pressures shifted over the period. The energy shock that had dominated the first quarter began to reverse, with Brent crude retreating from around US$92 per barrel at the end of May to around US$73 at the end of June, close to its pre-shock level. The domestic adjustment, however, continued, Bank Indonesia raised its policy rate by a cumulative 100 basis points to 5.75%, the government bond curve moved higher and flatter, and the Jakarta Composite Index fell further, to 5,643 by the end of June. Even so, Indonesia's underlying fundamentals remain broadly intact, supported by first-quarter GDP growth of 5.61%, disciplined public finances, and an adequate reserve buffer. As the external environment begins to ease and monetary policy approaches its peak, our base case is for a gradual stabilization through the second half of the year.

Key Observations from Q2 2026

Macroeconomic Environment

- **Energy prices reversed and became a source of relief. Having spiked above US$118 per barrel late in the first quarter, Brent crude fell back to around US$73 by the end of June**. The US Federal Reserve kept its rate at 3.50% to 3.75%, while the 10-year US Treasury yield stayed near 4.47% and DXY remained around 101, keeping external conditions tight for Indonesian assets.
- **Domestic momentum remained positive but softened.** Manufacturing PMI fell into contraction at 46.9 in June, retail sales declined, and consumer confidence eased to 120.9, indicating more selective household spending as living costs increased. Inflation remained within Bank Indonesia's target band, with headline inflation at 3.34% year on year and core inflation at 2.76%, mainly driven by higher fuel and transport costs.
- **Bank Indonesia raised its policy rate by a total of 100 basis points to 5.75%** to stabilize the rupiah and anchor inflation expectations. Indonesia also recorded a US$1.61 billion trade deficit in May, its first since 2020, although the January-to-May balance remained in surplus and reserves stayed adequate at around US$146 billion.

Fixed Income Market

- **Government bonds moved into a higher-yield regime with a bear-flattening curve.** Short-tenor SBN yields rose from around 6.22% to 7.15%, while the 10-year yield closed near 7.14%, increasing by around 28 basis points quarter on quarter. The 2-year to 10-year spread narrowed to only 4.42 basis points, leaving the curve close to flat. The sell-off was mainly driven by rates and currency pressure rather than credit deterioration, as sovereign credit default swap spreads tightened over the quarter.

Equity Market

- **Equities experienced a broad de-rating and led global losses. The JCI fell 19.9% during the quarter and 34.7% year to date, after reaching a low of 5,342 on 8 June.** The correction was driven by investability concerns and foreign outflows. MSCI kept Indonesia in the Emerging Markets category but continued to flag information-flow concerns ahead of its November review. Foreign net selling reached around US$3.6 billion ytd, while policy uncertainty added to the domestic risk premium.

Market Outlook for Q3 2026

- **Base-case conditions point to gradual stabilization**. On our base case, we assume a gradual stabilization rather than a full recovery. Portfolio positioning remains selective and defensive, with an overweight in short-duration government bonds, a neutral stance on equities with a positive tilt, and a continued focus on quality until rupiah stability and foreign inflows confirm a more durable turn.

1. Macroeconomic Outlook

1.1 Global environment

Global dashboard — end-May vs end-June 2026

Metric	End-May	End-June	Read-through
US CPI (% y/y)	3.8	**4.2**	Re-acceleration keeps the Fed restrictive.
Fed funds rate (%)	3.75	3.75	Maintained range throughout Q2 2026, since the beginning of year
US 10Y Treasury (%)	4.45	4.47	Range-bound.
Brent (US$/bbl)	92.1	**73.0**	−21% m/m — favorable for a net oil importer.

Source: Summary sheet (dataset); US data via Trading Economics; Oil Price sheet. Fed funds shown as the prevailing policy level.

The global backdrop remains defined by policy restraint amid renewed inflation pressure. US headline CPI rose to 4.2% YoY in May 2026 from 3.8% in April, marking its fastest pace of increase in three years. However, this acceleration was substantially influenced by energy inflation, which rose 23.5% YoY as gasoline and other energy prices increased amid heightened geopolitical tensions in the Middle East. By contrast, core inflation, which excludes food and energy, remained comparatively contained at 2.9% YoY, providing the Fed with some buffer to assess whether the energy shock will prove temporary or transmit more persistently into broader goods and services prices. As a response, The US Federal Reserve maintained its target range at 3.50%–3.75% throughout Q2 2026. This decision reflects a cautious assessment that the recent rise in headline inflation has been driven predominantly by the energy component, rather than a broad-based reacceleration in underlying price pressures.

At the same time, the US labor market has shown signs of moderation, with June non-farm payrolls increasing by only 57k, lower than the consensus of 110K and previous month of 179k, with the unemployment rate standing at 4.2% (dropped from 4.3% in May 2026). The combination of softer employment momentum and still-contained core inflation reduces the urgency for an immediate additional rate hike, despite the sharp increase in headline CPI. Accordingly, the Fed's current stance is best characterized as a "restrictive hold": policy remains sufficiently tight to contain inflation risks, while the Committee awaits clearer evidence of sustained core inflationary pressure before considering further tightening. The US 10-year Treasury yield remains range-bound near 4.47%, while the Dollar Index remains near 101. These continue to serve as the key external anchors for Indonesian sovereign yields, foreign capital flows, and rupiah stability. For Indonesia, the principal risk remains that persistent energy inflation could eventually feed through into US core inflation and inflation expectations, which would raise the likelihood of further Fed tightening and prolong the higher-for-longer global interest-rate environment.

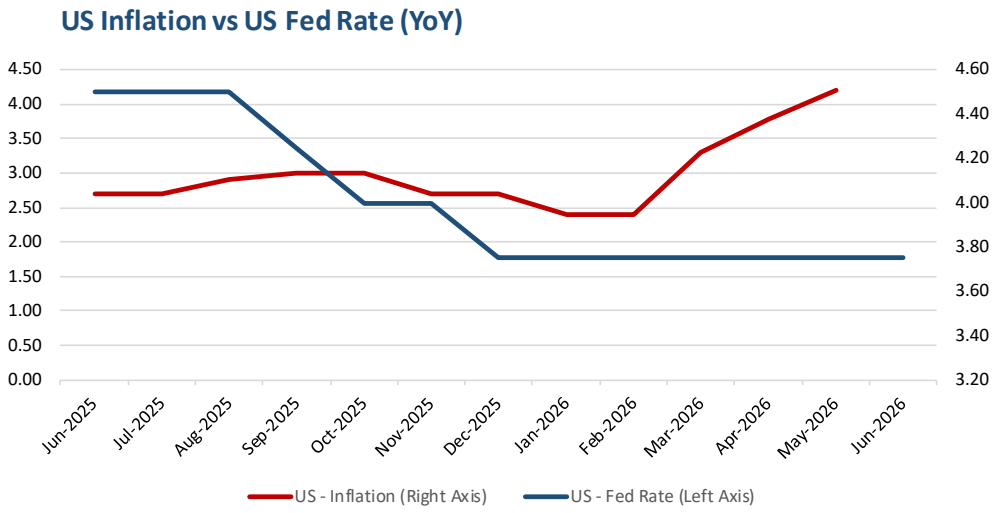


Figure 1: US Inflation vs US Fed Rate Year-on-Year
Source: Tradingview.com

Brent crude oil price has declined materially from the conflict-driven peak, falling from above US$92/bbl in late May to around US$72/bbl in early July as the US–Iran memorandum and subsequent negotiations improved expectations for the reopening of the Strait of Hormuz and the recovery of Middle East supply. The decline has also been reinforced by OPEC+ plans to raise production targets from August. Lower Brent prices reduce the cost of imported fuel, LPG, transport, logistics and other energy-intensive production inputs, which is relevant because the earlier increase in global oil prices had raised concerns over imported inflation and possible pass-through into domestic administered prices.

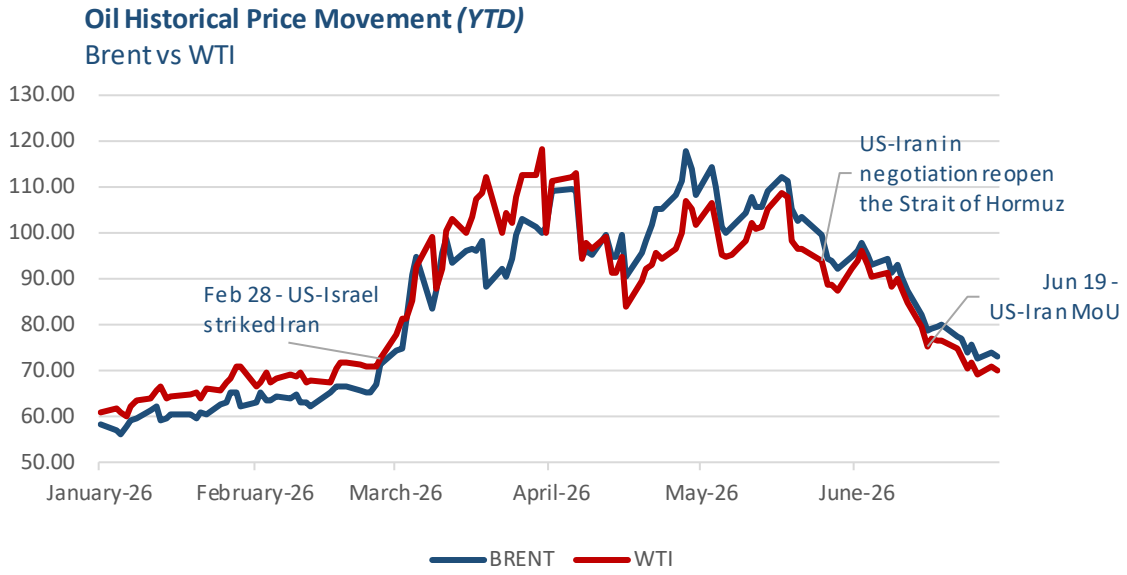


Figure 2: Oil Historical Price Movement (BRENT vs WTI)
Source: Yahoo Finance, processed

1.2 Indonesia Macroeconomics Overview

Indonesia dashboard — Q2 2026 latest readings

Metric	Latest	Source / note
Real GDP (% y/y)	Q1: 5.61	BPS, 5 May 2026 — strong baseline
Headline / core CPI (% y/y)	Jun: 3.34 / 2.76	BPS, 1 Jul — near top of 2.5%±1% band
BI 7-Day RR (%)	**5.75**	BI — +100bps in Q2 (from 4.75%)
USD/IDR (JISDOR)	17,952 (1 Jul)	BI — 7.6% weaker YTD
FX reserves (US$bn)	145,6 (Jun 26)	BI — 5.5 months of imports
Trade balance (US$bn)	May: −1.61	BPS — Jan–May +4.03 cumulative
Manufacturing PMI	**Jun: 46.9**	S&P Global — sharp contraction
Consumer confidence	May: 120.9	BI — softening but >100
M2 (% y/y)	**May: 10.8**	BI — liquidity improving
Fiscal deficit (% GDP)	Jan–May: -0.70%	MoF — FY26 target -2.68%

Sources as noted (dataset Summary sheet; Q2 market review). Q3 figures are opening/latest-monthly readings, not completed-quarter outcomes.

Real GDP grew 5.61% year on year in the first quarter of 2026, with growth supported by household consumption, but underlying momentum weakened as the quarter progressed. Manufacturing activity moved into contraction, with the PMI falling to 46.9 in June from 50.0 in May and 49.1 in April. Retail sales also declined, contracting 3.7% year on year in April after a 3.4% increase in March, the first annual decline since April 2025, while sales fell 11.6% month on month, the sharpest monthly drop since June 2022, following the Eid-related surge in March. Consumer confidence eased in tandem, with the Consumer Confidence Index slipping to 120.9 in May from 123.0 in April and 122.9 in March, still above the 100-point threshold but reflecting a weaker assessment of current economic conditions, as the Current Economic Condition Index fell 4.3 points to 112.2. Taken together, these signals indicate that households are becoming more selective, maintaining essential spending while pulling back on discretionary purchases as living costs, including higher non-subsidized fuel prices, weigh on purchasing power.

Headline CPI inflation rose to 3.34% year on year in June, driven by cost-push pressures from higher fuel prices and transportation costs rather than stronger domestic demand, with the energy component up 2.87% year on year and transport inflation accelerating to 4.57% year on year from 2.30% in May. Monthly inflation was 0.44%, keeping the headline reading within Bank Indonesia's 2.5%±1% target band, while core inflation remained contained at 2.76% year on year. These pressures were amplified by elevated global crude prices, supply disruptions around the Strait of Hormuz, and rupiah depreciation, all of which raised the domestic cost of imported energy and transport inputs. A key driver was the mid-June adjustment to non-subsidized fuel prices, with Pertamax RON 92 rising from Rp12,300 to Rp16,250 per liter and Pertamax Green RON 95 from Rp12,900 to Rp17,000 per liter; although subsidized fuel prices were unchanged, the increase raised mobility costs for middle-income households and operating costs for selected businesses, reinforcing inflation expectations.

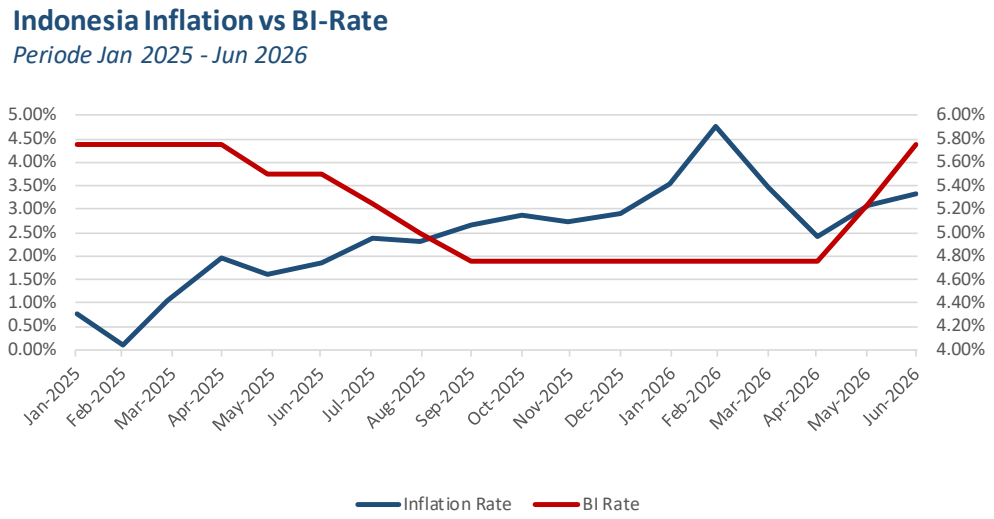


Figure 3: Indonesia Inflation vs BI Rate (January 2025 – June 2026)

Source: BPS, Bank Indonesia; Processed

The rupiah reached its highest level at Rp18,171 per US dollar in mid-June and closed at approximately Rp17,899 per US dollar at the end of the month, a depreciation of 7.05% year-to-date. The currency's weakness reflected combined pressure from higher global oil prices, firming domestic inflation, and a softer external balance, which together weighed on sentiment toward rupiah-denominated assets. As a response, **Bank Indonesia raised its policy rate by a cumulative 100 basis points during the second quarter, in three steps: from 4.75% in April to 5.25% on 17 May, to 5.50% on 9 June, and to 5.75% on 18 June.** This tightened policy reflects Bank Indonesia's priority on stabilizing the rupiah and anchoring inflation expectations amid heightened global uncertainty.

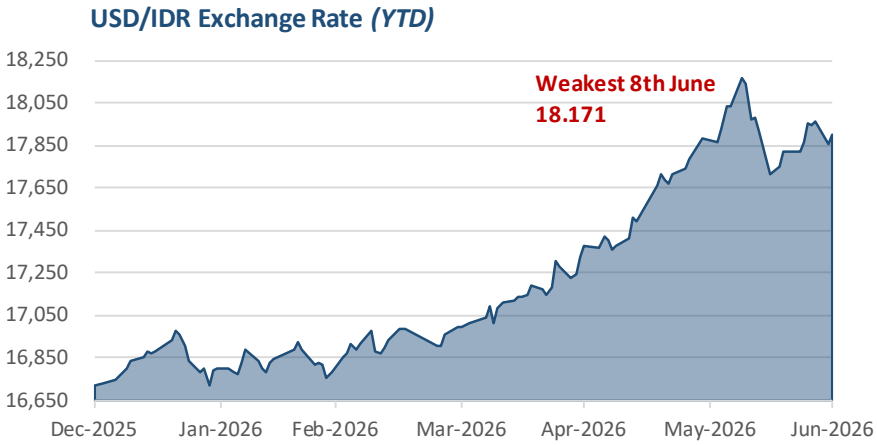


Figure 4: USD/IDR Exchange Rate (YTD)

Source: Bank Indonesia, processed

Indonesia recorded a trade deficit of US$1.61 billion in May, its first monthly trade deficit since May 2020, ending a run of 72 consecutive months of surplus, driven by a wider oil and gas deficit despite a continued surplus in non-oil and gas trade. While the cumulative January-to-May trade balance remained in surplus, the May outcome illustrates the sensitivity of Indonesia's external position to energy imports, commodity export performance, and movements in the rupiah. Foreign-exchange reserves remained adequate at approximately US$144.9 billion as of late May, providing a buffer against external volatility. The recent correction in Brent crude prices should help reduce pressure on the oil-import bill and imported inflation going forward; however, a firmer US dollar continues to limit

the extent of this relief by raising the rupiah cost of imported goods and sustaining pressure on portfolio flows.

Domestic liquidity conditions drained despite accelerated M2 growth. M2 grew 10.8% year on year in May, up from 9.2% in April, lifting the M2 stock to Rp10,415.9 trillion. Banking-system liquidity, however, was drained over the same period, primarily due to the withdrawal of government cash balances (Accumulated Budget Surplus "*Saldo Anggaran Lebih*", or SAL) by the Ministry of Finance, estimated at approximately Rp400 trillion, an effect that was further exacerbated by Bank Indonesia's aggressive absorption of liquidity through SRBI issuance. This divergence between broad money growth and system liquidity is likely to raise funding costs gradually and could moderate credit growth in the second half of the year. At the same time, fiscal execution and sovereign financing needs should remain closely monitored, as they will influence SBN supply, banking-system liquidity, and term-premium dynamics in the government bond market.

Following a tighter policy mix, a softer domestic demand, and external backdrop, as World Bank projects, our base case assumes full-year GDP growth to be around 5.0-5.1%. This outlook assumes that geopolitical tensions gradually moderate, allowing energy prices to stabilize in the low-to-mid US$70s, while policy remains focused on currency stability and on returning inflation toward the middle of the target range. As for the rupiah, our base case assumes to average around Rp17,600 over 2026 (source: Mandiri Sekuritas), with the recent decline in oil prices and the approach of the policy-rate peak providing the conditions for gradual stabilization through the second half. We would highlight the June manufacturing contraction as the clearest downside signal to monitor, and we regard a durable stabilization of the rupiah as the key condition for domestic financial conditions to ease as the year progresses.

2. Fixed Income Outlook

INDOBeX total return by segment (month-on-month)

Segment	Apr-26 (%)	Jun-26 (%)
Composite (INDOBeX)	+0.62	−1.69
Government (INDOBeXG)	+0.63	−1.77
Corporate (INDOBeXC)	+0.54	−0.42
Sukuk (ISIXC)	+0.40	−2.09

Source: PHEI. Total return, month-on-month.

SBN composite yields by maturity bucket — April vs June 2026

Maturity bucket	30-Apr (%)	Apr MoM (bps)	30-Jun (%)	Jun MoM (bps)	YTD — (bps)
Short (<5y)	6.33	**+11.53**	7.15	**+50.78**	**+195.36**
Medium (5–7y)	6.73	**+3.53**	7.13	**+35.84**	**+132.66**
Long (>7y)	6.85	**−7.88**	7.25	**+38.99**	**+70.20**

Source: PHEI.

Sovereign risk and SUN ownership — April vs June 2026

Metric	30-Apr	30-Jun	Change
5-year sovereign CDS (bps)	91.6	89.4	–2.1
10-year sovereign CDS (bps)	141.0	139.3	–1.7

Source: PHEI

Institution (Rp tn)	30-Apr	30-Jun	Δ Nominal	30-Apr (%)	30-Jun (%)	Δ ppt
Conventional Banks	939,90	765,09	-174,81	16,95	13,53	-3,42
Bank Indonesia	1.620,78	1.817,06	+196,28	29,22	32,13	+2,91
Foreign	849,07	866,96	+17,89	15,31	15,33	+0,02
Mutual Fund	203,46	202,81	-0,65	3,67	3,59	-0,08
Insurance and Pension Funds	1.066,35	1.116,04	+49,69	19,22	19,74	+0,51
Others	867,07	886,82	+19,75	15,63	15,68	+0,05
TOTAL	5.546,63	5.654,78	+108,15	100	100	-

Source: DJPPR / Ministry of Finance

Q2 2026 was marked by a clear repricing of Indonesian bonds, with pressure becoming progressively stronger from April to June. In April, the bond market was still relatively sideways: The Composite Bond Index (INDOBeX) rose +0.62% mom to 435.85, supported mostly by coupon carry, while clean price movements remained limited. The SBN curve was mixed, with long tenors rallying while short tenors rose slightly, resulting in a flatter curve. By May, repricing became more visible as higher-for-longer Fed expectations, Rupiah depreciation, and BI's rate hike pushed yields higher, particularly at the short end. The pressure peaked in June, when INDOBeX fell -1.69% mom, driven by a -1.77% mom decline in government bond returns and a -0.42% mom decline in corporate bond returns. From a yield-curve perspective, the quarter ended with a near-flat curve and mild inversion pressure around the front-to-belly area. The average yield for short-tenor SBN rose from 6.22% at end-of-March to 7.15% at end-of-June, while medium tenors rose from 6.69% to 7.13%, and long tenors rose from 6.93% to 7.25%. At the 10Y benchmark point, the yield closed the quarter at around 7.14%, up from approximately 6.86% at the end of the first quarter, a quarter-on-quarter increase of roughly 28 basis points. This shows the largest repricing occurred at the short end, with short tenors shifted over 100 bps quarter-on-quarter (1Y +129.84 bps, 2Y +102.98 bps), while long tenors shifted around 32 bps quarter-on-quarter (10Y +33.58 bps, 20Y +32.07 bps). This bear-flattening movement reflects the market's adjustment to tighter domestic monetary policy and higher short-term funding expectations. Thus, the 2Y–10Y spread narrowed sharply from +55.49 bps in April to +21.04 bps in May, before compressing further to only +4.42 bps by end-June, bringing the curve close to a flattened territory.

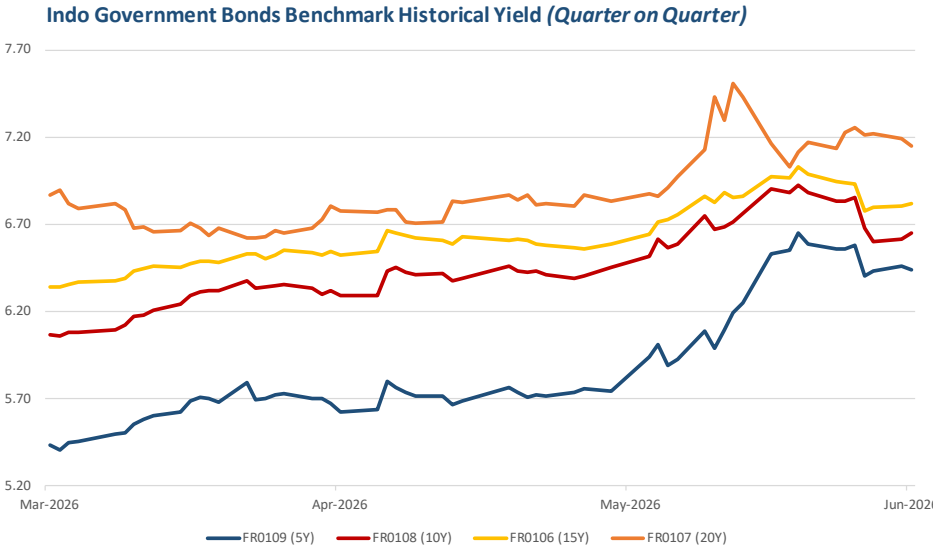


Figure 5: INDOGB Benchmark Historical Yield (Q2 2026)

Source: PHEI, processed

Throughout the second quarter of 2026, the regular SUN auctions revealed a steady tightening of liquidity in the primary market. Total incoming bids fell by roughly 40%, declining from a peak of Rp78.44tn on 14 April to Rp46.58tn on 23 June, while the oversubscription ratio weakened from 2.18x to 1.29x and the bid-to-cover ratio eased from 1.87x to 1.55x. At the same time, investors demanded increasingly higher yields, as reflected in the widening spread of the weighted average yield above PHEI's midday yield, which moved from a range of 0.60 to 5.68 basis points in April to 2.76 to 15.56 basis points in June. This indicates that market appetite was not only shrinking but also becoming more sensitive to price, with demand consistently concentrated in the FR0109 series (a medium-tenor bond of about 4.7 years) as the primary focus of interest. On the Government side, the Ministry of Finance's front-loading strategy proved highly effective: by taking advantage of ample liquidity and favorable pricing in April to absorb funds aggressively above its indicative target (awarding Rp42tn and Rp40tn), quarterly realization rose sharply from 46.91% to 98.09% of the Rp324tn target. This early success gave the Ministry the flexibility to adopt a more disciplined and selective stance toward the end of the quarter, deliberately restraining absorption below the minimum indicative target (Rp26.35tn on 9 June and Rp30tn on 23 June) in order to avoid a higher cost of funding as bidders sought greater yield premiums. Taken together, this pattern is consistent with the broader signal of tightening domestic liquidity, which is also evident in the rotation of banking-sector SUN holdings into Bank Indonesia's monetary operations.

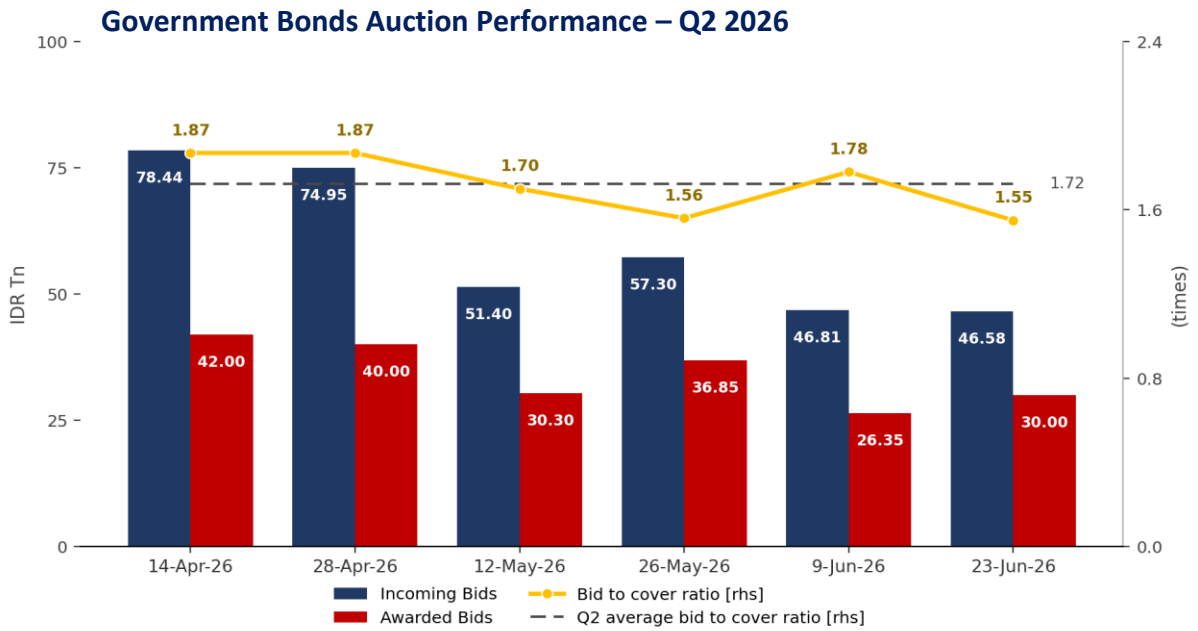


Figure 6: Govt. Bond Auction Performance — Q2 2026 (early April–end June)

Source: DJPPR; Ministry of Finance, processed

Government bonds entered Q2 with relatively contained price movement, but by June the market had clearly moved into a higher-yield valuation regime. The repricing was concentrated at the short end, consistent with BI's rate hikes and the market's adjustment to tighter domestic liquidity conditions. Long-tenor yields also rose meaningfully in June, but the curve flattening means the incremental yield pick-up from extending duration became limited. When the 2Y–10Y spread compresses to only +4.42 bps, the valuation case for long duration becomes less compelling unless the investor has strong conviction that rates will reverse lower. This suggests that duration risk became less compensated by curve steepness, while short-to-medium tenors absorbed the bulk of monetary-policy repricing. For portfolios, this implies that government bond valuation became more attractive in absolute yield terms, but mark-to-market sensitivity remained elevated, particularly for funds holding longer-duration positions during the June sell-off.

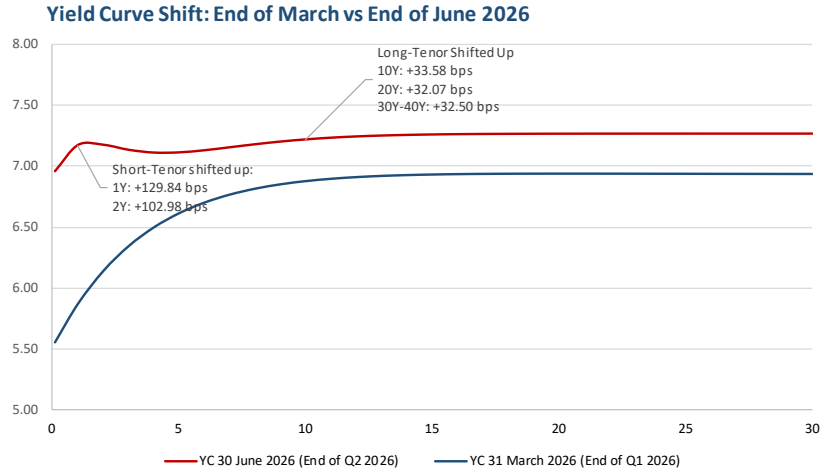


Figure 7: Yield Curve Q1 vs Q2 2026

Source: PHEI, processed

The INDOGB–UST 10Y spread widened throughout Q2 2026 as Indonesia's 10Y benchmark yield rose more sharply than the UST 10Y. The spread expanded from around 190–210 bps at the beginning of the year to nearly 300 bps during the May sell-off, before settling at around 260–270 bps by end-June. While the wider spread improved Indonesia's relative yield appeal, it primarily reflected higher domestic risk premium amid Rupiah pressure, BI tightening, and weaker risk appetite toward emerging-market bonds. As such, the elevated spread provides better carry compensation, but valuation should still be viewed selectively given the higher mark-to-market volatility and the near-flat domestic yield curve.

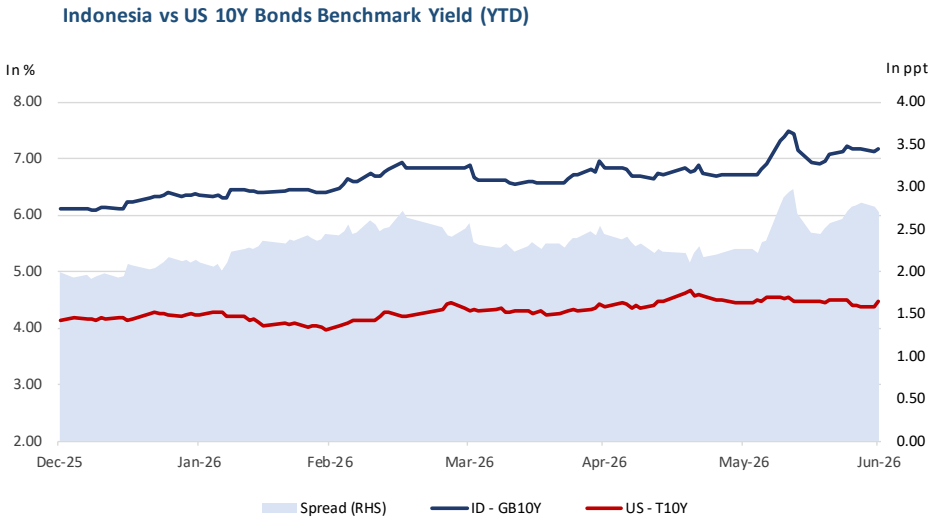


Figure 8: INDOGB VS UST 10Y Benchmark Yield (YTD)

Source: Infovesta, Processed

Corporate bond issuance moderated in the first half of 2026, declining by 3.9% year-on-year to IDR87.4 trillion, although the total issuance volume still exceeded maturing bonds by 158.2%. The decline was mainly driven by softer investor demand and higher funding costs for issuers, rather than lower refinancing needs alone. Following Bank Indonesia's policy rate hikes and the increase in benchmark bond yields, investors became more selective in absorbing corporate bond issuances,

while issuers also faced a higher cost of borrowing. This was reflected in the average coupon for three-year AAA-rated corporate bonds, which increased by 150 basis points to 7.03%, making some issuers more cautious in accessing the debt market and encouraging them to postpone issuance plans until market conditions become more favorable. Overall, the moderation in corporate bond issuance reflects a combination of weaker investor appetite and higher borrowing costs, which have temporarily weighed on primary market activity. Looking ahead, issuance is expected to recover in the second half of 2026, supported by a higher corporate bond maturity profile of IDR107.5 trillion and continued investor interest in attractive fixed-income instruments.

3. Equity Market Outlook

Market conditions

The equity market has undergone a violent de-rating over the quarter. Having started 2Q26 at 7,048.22 (end-March), the JCI fell in every month of the quarter—April (–1.3%), May (–11.9%) and June (–7.9%)—to close at 5,643.19 on 30 June, -19.9% quarterly decline. That leaves it down -34.7% year-to-date (from 8,748 at the start of 2026), around 21% year-on-year, and 38% below its 9,135 cycle peak.

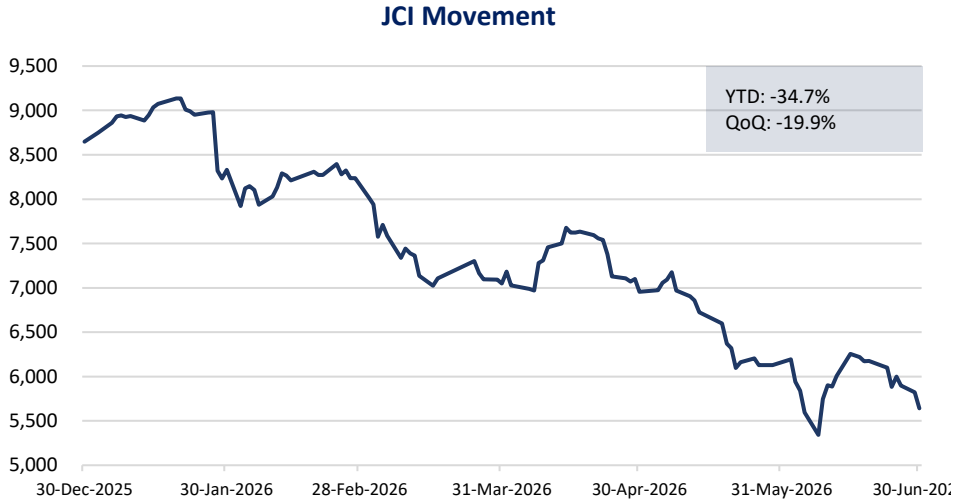


Figure 9: JCI Movement (YTD)

Source: Infovesta, Processed

Indonesia's equity market underwent a severe de-rating over 2Q26, driven by some reinforcing factors:

1. **MSCI's index-classification review.** MSCI's Annual Market Classification Review, released 24 June 2026, kept Indonesia in the Emerging Markets category but flagged persistent "Information Flow" concerns—opaque ownership structures, suspected coordinated trading and unreliable free-float calculations—leaving open a possible Frontier Market downgrade consultation if reforms are judged insufficient by year-end. On 7 July, MSCI confirmed it will extend these restrictions through the August 2026 Index Review and MSCI will keep removing stocks flagged under Indonesia's High Shareholding Concentration framework, with the next update expected ahead of the November 2026 Index Review. Uncertainty through the review window drove much of the quarter's volatility, with the JCI's loss steepening to reach -34.7% YTD.

2. **MSCI is not alone: FTSE Russell, S&P Dow Jones Indices and Moody's are watching the same transparency issues.** S&P DJI has flagged a potential Emerging-to-Frontier downgrade if disclosure and liquidity concerns persist, though a decision isn't imminent.
3. **Sustained foreign selling.** Net foreign outflows continued to build through the quarter, extending the sell-off that began with January's MSCI freeze; cumulative year-to-date foreign net selling is estimated at around US$3.6 billion, keeping the market thin and amplifying price moves in both directions
4. **Weak Policy Planning & Communication.** The recurring pattern (not any single measure) is what unsettles investors: the government repeatedly rolled out abrupt regulatory changes with little warning. A proposed mining royalty hike on nickel, coal, copper, gold and tin was floated, delayed and ultimately shelved after industry pushback; PT Danantara Sumberdaya Indonesia (DSI) was named sole export channel for coal, palm oil and ferroalloys from 1 June with implementation details still unclear; and the IDR268 trillion (down from IDR335 trillion) 2026 budget for the Makan Bergizi Gratis (MBG) meal program (+2.7x versus 2025 budget) underscored the scale of new spending commitments. This pattern of policy unpredictability makes it harder for businesses and investors to price regulatory risk, weighing hardest on commodity-linked sectors such as Energy and Basic Materials.
5. **Legal uncertainty.** The 30 June conviction of former Education Minister Nadiem Makarim (10 years, over Chromebook procurement decisions made in office) has drawn accusations of "policy criminalization" from his defense and commentators, reinforcing investor concern that good-faith business or policy decisions can later be prosecuted as corruption, compounding the regulatory unpredictability noted above.

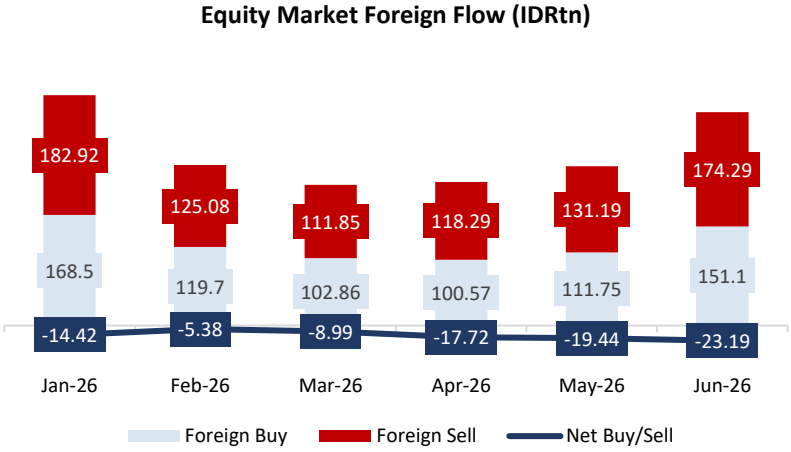


Figure 10: Indonesia Equity Market Flow (YTD)

Source: Stockbit, Processed

Against the broader peer set shown alongside the JCI in the chart below—the S&P 500, Hong Kong's HIS, Korea's KOSPI, China's SSE, Japan's Nikkei, Singapore's STI and Malaysia's KLCI, Indonesia's underperformance stands out. The S&P 500 (+9.54% QoQ), KOSPI (+67.8% QoQ) and HSI (−7.69% QoQ) anchor the comparison, and the JCI trails every one of these markets by a wide margin on a YTD, quarter-on-quarter and month-on-month basis alike. The scale of Indonesia's relative underperformance points to a flows-and-valuation dislocation and a structural de-rating, rather than a proportionate deterioration in fundamentals.

Sector positioning

Every IDX sector is down YTD (Energy −42.2%, Properties −40.2%, Infrastructure −37% the worst), but the quarter-on-quarter picture is more telling. Energy (−30.2%) and Basic Materials (−29.7%) led Q2's decline as the royalty and DSI export shocks landed squarely within the quarter, with Properties (−23.8%) and Healthcare (−22.7%) also underperforming. Financials stands out a −5.7% QoQ decline against −17.5% YTD shows most of its damage was already priced in before Q2, reinforcing its defensive standing; Infrastructure shows the same pattern (−12.5% QoQ vs. −37.0% YTD). Q2's marginal pressure was concentrated in commodity- and policy-exposed names rather than a fresh broad-based leg down, validating the 'prefer' bucket. Basic Materials (−29.7% QoQ) and Energy (−30.2% QoQ) bore the brunt of China-demand and commodity-price concerns, consistent with the 'more vulnerable' bucket below, while Financials proved comparatively resilient (−6%) given its lower reliance on foreign flows and larger domestic ownership base, reinforcing its place among the more defensive names. Properties (−23.8% QoQ) and Infrastructure (−12.5% QoQ) sat in between, tracking the broader market's de-rating rather than sector-specific stress.

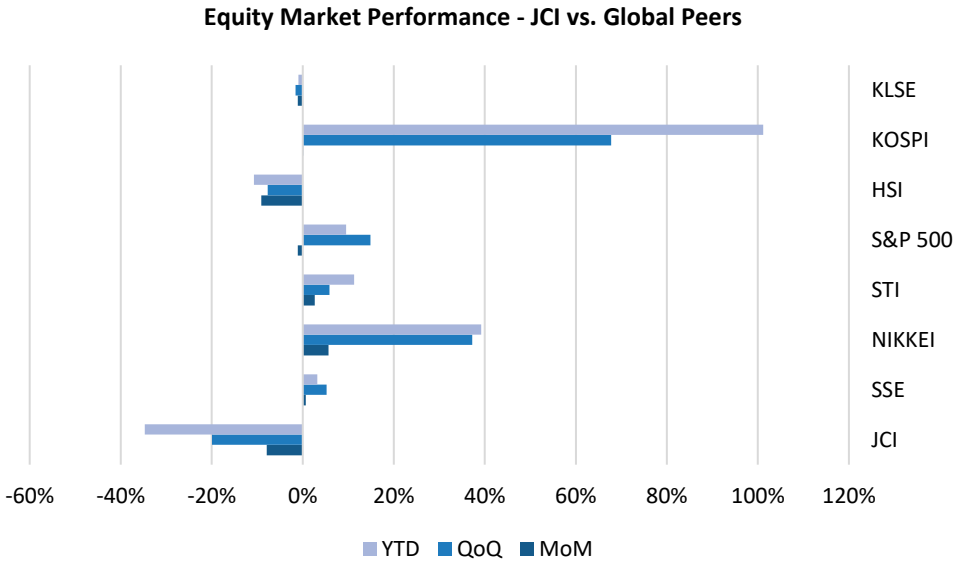


Figure 11: Equity Market Performances – JCI vs Global peers

Source: Infovesta, Processed

Equity stance

Selective and defensive, with an eye on the turn. The market's distressed valuation and record relative underperformance argue against capitulation, but the June growth signals argue against indiscriminate buying. We prioritize liquidity, resilient earnings, high USD earnings, low USD debt, pricing power and strong balance sheets. The decisive catalyst for a broad re-rating is rupiah stabilization and a resumption of foreign inflows; until then, quality and dividend support are the right places to be positioned. We also prioritize sound fundamentals, expecting the narrative to shift back toward fundamentally-driven stock selection as flows stabilize.

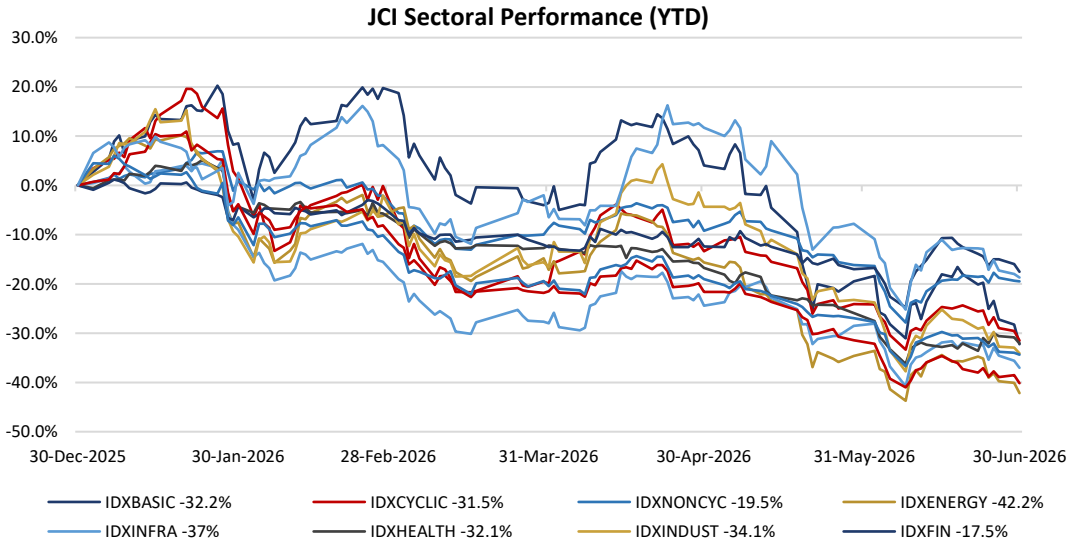


Figure 12: JCI Sectoral Performances (YTD)

Source: Investing.com and Infovesta, Processed

4. Our View

The table below summarizes our key assumptions for the principal Indonesian macroeconomic and financial market indicators until the end of 2026, based on several house views. We present three scenarios — Bear, Base, and Bull — to reflect the range of plausible outcomes given the current macro environment. Our base case is assigned a 60% probability, with 20% probabilities each assigned to the bull and bear scenarios.

Indicator	Current (As of 30th June 2026)	Bear	Base	Bull
JCI Index	5,643	5,924	**6,828**	7,762
GDP Growth (%)	5.61*	4.70	**5.00**	5.30
Inflation (%)	3.30	3.60	**3.00**	2.70
USD/IDR	~17,900	18,200	**17,600**	17,200
BI Rate (%)	5.75	6.00	**5.75**	5.50
10-Year SBN Yield (%)	~7.20	7.50	**7.00**	6.70

**Current GDP Growth (%) based on the First Quarter 2026 growth*

***Our view is based on market consensus from other houses views*

- **Base case (60%).** The rupiah stabilizes around 17,500–18,000 as oil holds around US$70–80 and the Fed stays on hold; BI reaches a credible pause at 5.75%; inflation drifts within the band and the fiscal deficit tracks below 2.68%.
- **Bull case (20%).** US inflation rolls over, UST yields and the dollar fall, oil stays soft, and foreign inflows resume; BI signals cuts into 2027 and the rupiah strengthens toward 17,000.

- **Bear case (20%).** An external shock — a UST/dollar spike, an oil spike, a wider fiscal risk premium, or persistent outflows — drives USD/IDR toward or beyond 18,500 and forces BI to tighten further or intervene heavily; June's manufacturing weakness broadens into earnings.

Asset Allocation Strategy

The table below sets out our viewed positioning across the principal asset classes for the third quarter of 2026, under the current base case assumptions.

Asset Class	Our Stance
Equities	Tactical Neutral
Government Bonds (SBN)	Overweight short duration
Corporate Bonds	Neutral
Money Market	Neutral

Equity Sector Preferences

With no sector clearly outstanding this quarter, fund performance will likely hinge on getting sector selection right. Our view on where to lean is set out below.

Sector	Stance	Rationale
Financials (large banks)	**Overweight**	Most resilient sector this quarter (−5.7% QoQ vs. −17.5% YTD) on strong CASA/capital, but higher rates cut both ways—better asset yields, yet costlier deposits and softer loan demand as consumption cools.
Consumer Non-Cyclicals & Telecom	**Overweight**	Defensive, domestically-driven earnings; staples/F&B get a direct demand tailwind from around IDR268tr Makan Bergizi Gratis food program.
Selected Infrastructure & Logistics	**Overweight**	Smallest QoQ decline (−12.5% vs. −37% YTD)—the de-rating was front-loaded into 1Q. Domestic, tariff/contract-based revenue (toll roads, ports, utilities) shields it from commodity/export shocks, with logistics also gaining from MBG's distribution scale-up.
Energy & Basic Materials	**Overweight**	Worst YTD/QoQ performers, clouded by political and regulatory uncertainty, such as the DSI mandate and the royalty-policy overhang, though the ongoing US–Iran and Russia–Ukraine conflicts could still push commodity prices either up or down.
Property & Construction	**Underweight**	Most rate-sensitive sector, highly leveraged, weighed down by BI's 5.75% policy rate and rupiah volatility.
Industrials / Manufacturing	**Underweight**	June PMI contraction (46.9) signals genuine demand weakness, not just a valuation reset.

Source: RCAM analytics

This reflects our current view of Indonesia's equity market amid an elevated-uncertainty backdrop, and because that condition can shift quickly, we remain highly adaptive by revising this view as market conditions and developments evolve.

5. Our Funds Performances and Forward Strategies

Despite this challenging environment, our funds have generally demonstrated relative resilience compared with each respective benchmarks, reflecting active portfolio positioning and disciplined risk management.

Recapital Asset Management Fund Performance Review — First Half 2026

The first half of 2026 was marked by a broad and significant correction across the domestic capital market. Equity market pressure deepened during the period, while fixed income instruments also faced volatility, particularly toward the end of the second quarter. Against this challenging backdrop, RCAM's fund performance generally reflected a prudent and defensive investment approach. Each fund was managed with a focus on preserving capital, controlling downside risk, and maintaining performance consistency relative to its respective mandate.

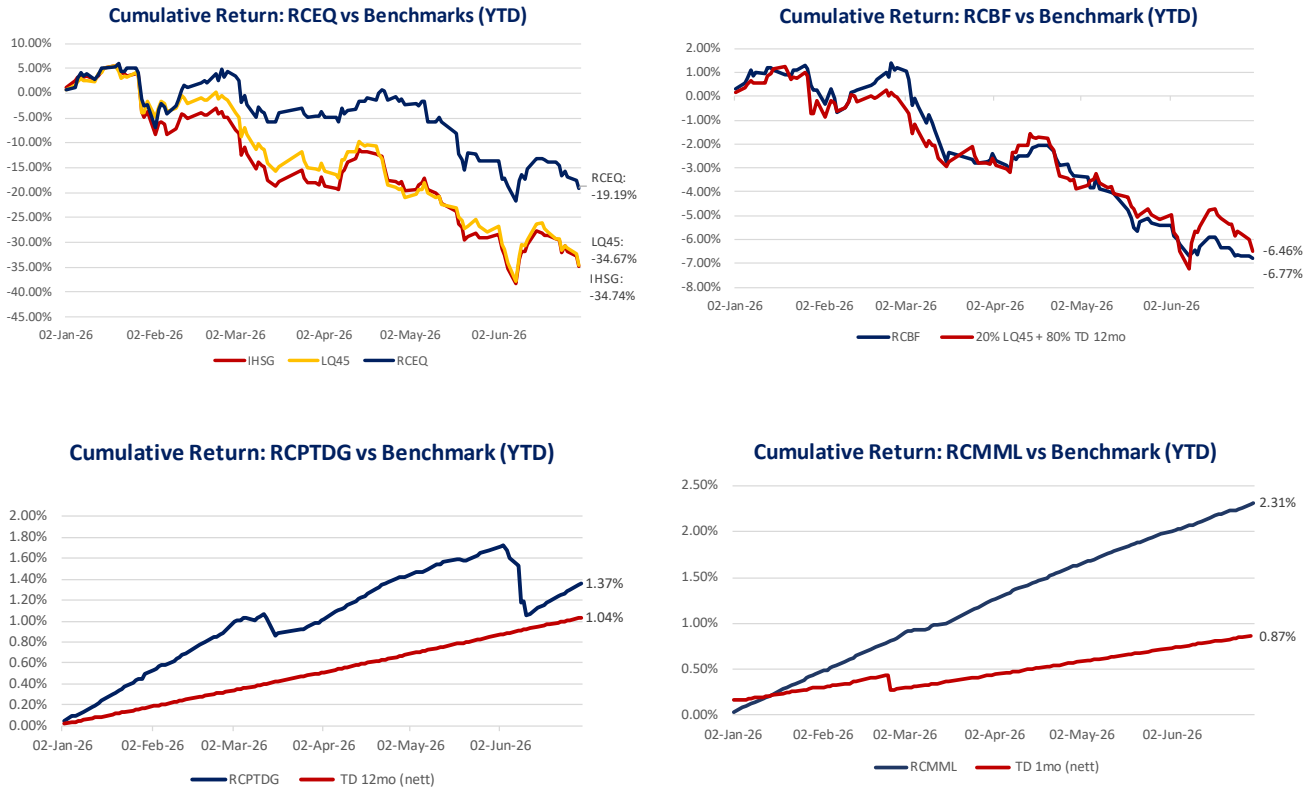


Figure 13: Recapital AM Mutual Funds YTD Performance vs Benchmarks

source: Infovesta, processed

RCEQ demonstrated strong resilience in a sharply corrected equity market, supported by defensive portfolio positioning and effective downside management. The fund closed the first half of 2026 at a net asset value of 420.77, with a year-to-date return of -19.19%, outperforming the Jakarta Composite Index and LQ45 Index, which returned -34.74% and -34.67%, respectively. This translated into **outperformance 1,555 bps against the Jakarta Composite Index** and 1,548 bps against the LQ45 Index. The fund's defensive profile was particularly visible in March and June, when market pressure

intensified. In March, RCEQ returned -8.62%, compared with -14.42% for the Jakarta Composite Index and -14.21% for the LQ45 Index. In June, the fund returned -6.37%, outperforming the Jakarta Composite Index by 153 bps and the LQ45 Index by 313 bps. RCEQ also captured selective upside, recording positive returns of 7.00% in February and 2.38% in April, despite continued weakness in the broader market.

RCBF (Recapital Balanced Fund) continued to demonstrate the benefit of diversification between equities, fixed income, and cash instruments, helping cushion portfolio downside during a highly volatile market environment, compared to equity funds. Historically, the fund has delivered stronger cumulative growth compared with its benchmark, reflecting active allocation and disciplined portfolio management. During the recent market correction, RCBF showed relative resilience as the diversified structure helped cushion the downside. The fund closed the first half at a net asset value of 769.22, with a year-to-date return of -6.77%, broadly in line with its blended benchmark of 20% LQ45 and 80% twelve-month time deposit, which returned -6.46%. The fund trailed its benchmark by a modest 31 bps, but remained significantly more defensive than the broader equity market. The fund's performance reflected the role of a balanced strategy in moderating volatility while maintaining exposure to long-term market recovery potential.

RCPTDG (Recapital Pendapatan Tetap Dana Gemilang) delivered positive performance in the first half of 2026, showing resilience despite a more challenging bond market environment toward the end of the period. The fund closed at a net asset value of 1,045.54, with a year-to-date return of 1.37%, outperforming its benchmark, the net twelve-month time deposit, which returned 1.04%, by 33 bps. Performance was supported by steady income generation, with positive monthly returns from January to May. Although the fund recorded a modest decline of 0.30% in June amid rising government bond yields and weaker bond prices, its first-half return remained positive and ahead of benchmark. This reflected prudent duration management and disciplined fixed income positioning in a volatile rate environment.

RCMML (Recapital Money Market Liquid) delivered the most stable performance among RCAM's funds, supported by consistent income generation, high liquidity, and low volatility. The fund closed the first half at a net asset value of 1,042.69, with a year-to-date return of 2.31%, outperforming its benchmark, the net one-month time deposit, which returned 0.87%, by 144 bps. The fund generated positive returns in every month of the period, ranging from 0.33% to 0.45%, with no monthly drawdown. Its performance benefited from the rising short-term interest rate environment, while maintaining the capital preservation characteristics expected from a money market strategy.

Overall, Recapital Asset Management's fund performance in the first half of 2026 reflected a disciplined and defensive investment approach across different asset classes. RCEQ provided equity exposure with stronger downside protection relative to the broader market, making it more suitable for investors with a higher risk tolerance and a longer investment horizon. RCBF offered a more balanced allocation for investors seeking participation in market recovery while maintaining lower volatility than pure equity exposure. RCPTDG remained appropriate for investors seeking fixed income returns with measured interest rate risk, while RCMML served as a stable option for liquidity needs,

capital preservation, and short-term investment objectives. Together, the funds provide differentiated strategies that can be aligned with varying risk appetites, investment horizons, and portfolio objectives.

Conclusion

The second quarter of 2026 produced one of the broader and deeper drawdowns of recent years across both Indonesian equities and bonds. The correction was set in motion by an external energy-price shock, transmitted into cost-push inflation and a widening trade deficit, and amplified domestically by aggressive monetary tightening to defend a rupiah that weakened toward 18,000 per US dollar. It was further compounded by investability concerns, most visibly the MSCI classification review, and by sustained foreign outflows. Importantly, the external backdrop began to improve toward the end of the quarter, as Brent crude reversed lower, the Federal Reserve held its policy rate steady, and geopolitical tensions eased, together relieving some of the pressure that had built through May and June.

Within Indonesia's capital market, the scale of the decline reflected a repricing of flows, valuations and investability rather than a proportionate deterioration in fundamentals. Equities now trade at historically undemanding valuations after a de-rating that has priced in a substantial share of the risks. In fixed income, the repricing has restored more attractive absolute yields and wide real yields, and the fact that sovereign credit-default-swap spreads tightened even as yields rose confirms that the move was driven by interest-rate and currency dynamics, not by a weakening of Indonesia's credit standing. Just as significantly, the domestic investor base, including banks, insurance and pension funds, and a growing retail segment, absorbed the adjustment and supported well-covered government bond auctions, demonstrating a genuine stabilizing buffer that reduces the market's dependence on foreign flows.

For investors navigating current uncertainty, Indonesia’s macro backdrop still offers a constructive anchor. Growth remains around 5%, FX reserves are adequate at 5.6 months of imports, and the fiscal deficit remains low at 0.70% of GDP in the first five months of the year versus the 2.68% full-year target, leaving room for policy support. With much of the negative sentiment already priced in, risk-reward has improved for long-term investors. Stabilization can be tracked through key signals, such as a steadier rupiah, confirmation that the policy rate has peaked at 5.75%, softer oil prices, and a stable Fed stance. While near-term risks remain, including the MSCI review and policy uncertainty, the most appropriate approach is to maintain a disciplined, quality-focused, and diversified strategy.

On this basis, we maintain a selective and defensive posture while remaining alert to the turn. Our funds are positioned to protect capital through continued volatility and to participate as conditions normalize, and our diversified range allows investors to align equity, balanced, fixed income and money-market strategies with their own objectives, horizons and risk tolerance. In our view, the current phase, though demanding, presents selective opportunities to build well-constructed portfolios that can navigate near-term uncertainty while remaining exposed to Indonesia's longer-term structural growth.

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