

Quarterly Market Outlook | Q4 2026

RENEWED EXTERNAL PRESSURE, PERSISTENT DOMESTIC VULNERABILITIES

RISING EXTERNAL RATES AND ENERGY COSTS KEPT PRESSURE ON THE
RUPIAH AND RESTRICTED ROOM FOR DOMESTIC MONETARY EASING

Prepared by: RCAM Investment Team

October 2026

Executive Summary

The third quarter of 2026 brought a partial recovery in Indonesian assets, although renewed external pressure reversed some of the gains in September. Bank Indonesia held its policy rate at 5.75%, domestic liquidity conditions eased, and the Jakarta Composite Index (JCI) rose 7.6% quarter-on-quarter to 6,071.14. The 10-year government bond yield ended September at 7.12%, broadly unchanged from end-June. Globally, however, the Federal Reserve resumed tightening, US Treasury yields rose sharply, and Brent crude climbed 42% to US\$103.53 per barrel. Entering Q4, resilient domestic growth supports selective investment opportunities, but currency stability, foreign flows and fiscal discipline remain central to the outlook.

Key Observations from Q3 2026

- **Macroeconomic Environment.** Indonesia's economy remained resilient, with second-quarter GDP growth of 5.29% and September manufacturing PMI recovering to 52.4. Headline inflation reached 3.28%, remaining within Bank Indonesia's target band, while core inflation eased to 2.84%. BI maintained its policy rate and reduced SRBI absorption and auction yields, supporting domestic liquidity. The rupiah nevertheless required continued intervention, closing September at Rp17,855 per US dollar. Higher oil prices increase pressure on the import bill and energy subsidies, while the revised full-year fiscal deficit outlook of 2.85% of GDP points to greater financing needs in Q4.
- **Fixed Income Market.** Government bonds re-steepened as shorter-tenor yields declined while long-term yields remained constrained by external rates and fiscal risks. Domestic banks added Rp142.77 trillion of tradable SBN during Q3, helping offset Bank Indonesia's Rp181.01 trillion reduction in holdings. Foreign investors added Rp21.80 trillion over the quarter, but demand stalled in September. With the US Treasury 10-year yield rising to 5.29%, the INDOGB–UST spread narrowed to approximately 182 basis points, reducing the yield cushion for foreign investors. Lower sovereign CDS spreads suggest that this compression primarily reflected external rate dynamics rather than deteriorating credit perceptions.
- **Equity Market.** The JCI's July–August recovery partly unwound in September, when the index fell 7.0% and foreign investors sold Rp10.25 trillion. Despite its quarterly gain, the JCI remained down 29.8% year-to-date. Valuations of approximately 12.4 times trailing earnings offer scope for recovery, but a sustained re-rating depends on currency stability, renewed foreign participation and the outcome of MSCI's November review. Energy and Basic Materials led the quarterly rebound, while Technology remained under pressure.

Market Outlook and Positioning for Q4 2026

Our positioning remains defensive, with selective participation in recovery opportunities. We maintain a **neutral equity stance with a positive tilt**, supported by a base-case end-2026 JCI target of **6,976**, approximately 15% above September's close (probability-weighted target 6,911). Our bear case sits slightly below the current level, so this outcome depends on easing external pressure and a constructive MSCI review. We remain highly selective in our sector allocation, favoring Energy and Basic Materials (selectively), staying neutral on Consumer Non-Cyclicals, Infrastructure and Industrials, and remaining underweight Financials, Property & Construction and Technology. Within banks, those with strong CASA, a healthy LDR, adequate CAR and planned corporate actions remain on our watchlist.

We remain **neutral on government bonds with a short-duration bias**. Our bond model places the probability-weighted year-end 10-year yield range at **7.35%–7.50%**, implying greater downside risk to bond prices from current levels. We favor shorter-tenor carry, maintain **neutral exposure to high-grade corporate bonds**, and remain **overweight money-market instruments** for income and liquidity. RCAM's fund results support this disciplined approach. RCEQ returned 13.72% in Q3 against the JCI's 7.58%, while RCPTDG and RCMML continued to outperform their deposit benchmarks. RCBF

moderated equity-market losses but remained behind its blended benchmark, and the newly launched RSPURA delivered positive returns above its benchmark.

1. Macroeconomic Outlook

1.1 Global environment

Global dashboard — end-June vs end-September 2026

Metric	End-June	End-September	Read-through
US CPI (% y/y)	4.2	3.4	Headline steady, core PCE at 3.0% keeps the Fed vigilant.
Fed funds rate (%)	3.75	4.00	+25 bps on 16 Sep, first hike since 2023.
US 10Y Treasury (%)	4.47	5.29	+83 bps QoQ term premium rebuilding.
Brent (US\$/bbl)	73.0	103.5	+42% QoQ, renewed headwind 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 has shifted from a “restrictive hold” to active re-tightening. The Federal Reserve raised the Fed funds rate by 25 bps to 3.75%–4.00% at the 15–16 September FOMC (Prev: 3.50%–3.75%, cons: +25 bps), its first hike since 2023 and a unanimous decision that followed Chair Warsh’s hawkish Jackson Hole address. The move was not isolated, the ECB lifted its deposit rate to 2.50% (Prev: 2.25%, cons: 2.50%) and the BoJ raised its policy rate to 1.25% (Prev: 1.00%, cons: 1.25%) in the same month, the first time on record that all three major central banks have tightened simultaneously, each responding to a resurgence in energy-driven inflation amid tight labor markets. US headline CPI held at 3.4% YoY in August (0.4% MoM) (Prev: 3.4% YoY / 0.1% MoM, cons: 3.4% YoY / 0.4% MoM), while core PCE eased to 3.0% YoY, below the 3.3% expected; however, core PCE has run above 3% every month since March, and the persistence of “supercore inflation” near 3% remains the crux of the hawkish case. The post-meeting projections showed 16 of 18 officials expecting one further hike before year-end. Our base case nevertheless assumes the Fed holds at 3.75%–4.00% through year-end while it waits for confirmation from inflation and labor data, with a further 25 bps hike our main risk scenario, we see room for cuts only from Q3 2027 as disinflation takes hold.

Growth, not weakness, is what the Fed is now leaning against. Activity data surprised to the upside in Q3, August non-farm payrolls printed 162k against a 56k consensus (later revised to +133k, with June revised to –10k), ISM Services rose to 55.4, its highest since 2024 and the flash composite PMI reached 58.4 (Prev: 56.0, cons: 55.2), while Q2 GDP was revised up to 2.2% (Prev: 1.5%, cons: 1.5%). The bond market has repriced accordingly, the UST 10Y rose +85 bps QoQ to 5.29%, the UST 2Y rose +75 bps QoQ to 4.89% and the UST 30Y rose +72 bps QoQ to 5.63%, a broad-based sell-off consistent with a rebuilding term premium. We expect the UST 10Y to trade in a 5.10%–5.40% range in Q4 2026, ending the year around 5.125% in our base case, and the DXY to remain supported near 100.2 over three months before easing toward 98. For Indonesia, this is the most consequential external shift of the quarter, the global anchor for INDOGB yields has moved about 85 bps higher in three months, and the key risk is that the Fed ends up delivering closer to market pricing than to our base case.

US Inflation, FFR, and UST 10Y Yield

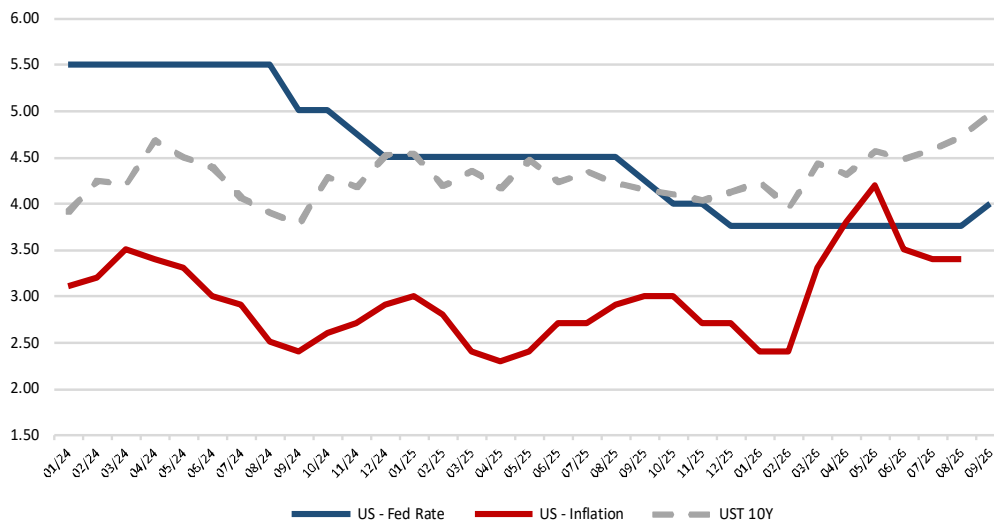


Figure 1: US Inflation, FFR, and UST 10Y Yield

Source: Investing.com

Oil has re-emerged as the dominant macro risk. After bottoming near US\$72/bbl on 1 July, the lowest level since the conflict began in late February, Brent climbed steadily through the quarter as renewed US–Iran escalation and shipping disruptions in the Strait of Hormuz constrained Middle East exports. Supply stress intensified after the 11 September attack on Saudi Arabia’s East–West pipeline halted an estimated 4–5 million barrels per day, taking Brent to a peak of US\$108.80/bbl in mid-September before it closed the month at US\$103.53/bbl, up +42% QoQ. Fears that shipping restrictions could extend to the Bab al-Mandab Strait, thin strategic and refined-product inventories, and a stalled diplomatic track keep the geopolitical risk premium elevated. In inflation-adjusted terms oil remains closer to its long-term average than to true “shock” levels, which explains why global growth has so far absorbed the move. For Indonesia, however, the arithmetic is unfavorable: every month Brent holds above US\$100/bbl widens the oil-and-gas import bill, raises energy compensation and subsidy outlays, and leaves the APBN 2027 assumption of US\$75/bbl looking increasingly too optimistic.

Oil Historical Price Movement (YTD)

Brent vs WTI

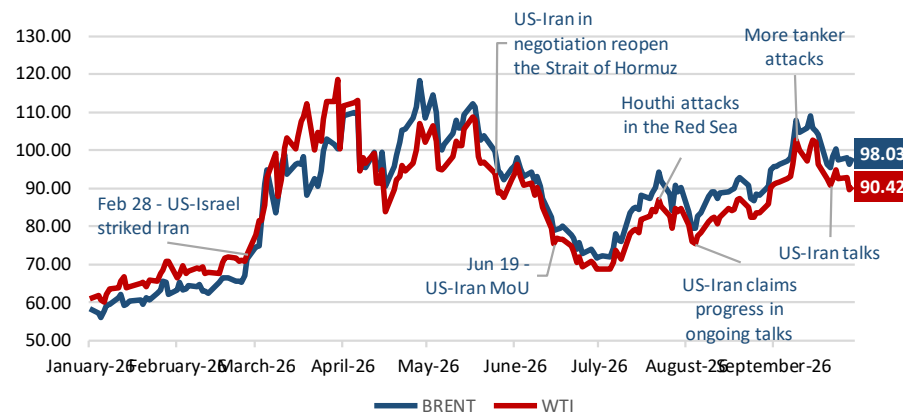


Figure 2: Oil Historical Price Movement (Brent vs WTI)

Source: Investing.com, processed

1.2 Indonesia Macroeconomics Overview

Indonesia Dashboard — Q3 2026 latest readings

Metric	Latest	Notes
Real GDP (% y/y)	5.29%	GDP YoY growth in 2Q26; exceeding market expectations of 5.1%
Headline CPI (% y/y)	3.28%	Core inflation eased to 2.84% (from 2.92%); food a 3-month high (4.37%)
BI 7-Day RR (%)	5.75%	BI interest rate held at 5.75% since mid-2026 after +100bps of hikes from 4.75%
USD/IDR (JISDOR)	17,855	Rupiah ~7% weaker YTD (from 16,675), off its 18,175 low
FX reserves (US\$bn)	146.0	September 2026; Decline was primarily due to government external loan withdrawals and tax and services receipts
Trade balance (US\$bn)	3.55	Aug 2026 number, exceeding expectactations of US\$0.6 billion
Manufacturing PMI	52.4	Marking the highest number since February
Consumer confidence	118.1	The decline was largely due to lower assessments of current economic conditions
M2 (% y/y)	8.2%	Aug 2026 number; Slowing slightly due to slower growth in M1
Fiscal deficit (% GDP)	-0.93%	Aug 2026 YTD deficit at 0.93% of GDP, tracking well inside the FY26 target of 2.68%

Source: TradingEconomics, Infovesta

Inflation is edging higher on food and energy, yet remains inside the target band. Headline CPI rose to 3.28% year on year in September from 3.19% in August and 2.88% in July, with monthly inflation of 0.30%. Food, beverages and tobacco were the main contributors, at 4.37% year on year and 1.28 percentage points of the headline rate, reflecting higher prices of chicken meat, chilies, fresh fish and rice amid holiday-related demand and the restart of the Free Nutritious Meal program. Core inflation eased to 2.84% from August's more-than-three-year high of 2.92%, which suggests that second-round effects from the June fuel-price adjustment and rupiah weakness are being contained. The balance of risks, however, is tilted upward: a potential El Niño episode into early 2027 threatens food prices and CPO output, while Brent above US\$100/bbl keeps pressure on administered energy prices. We expect headline inflation to hover around 3.1%–3.4% through Q4, in the upper half of Bank Indonesia's 2.5%±1% band.

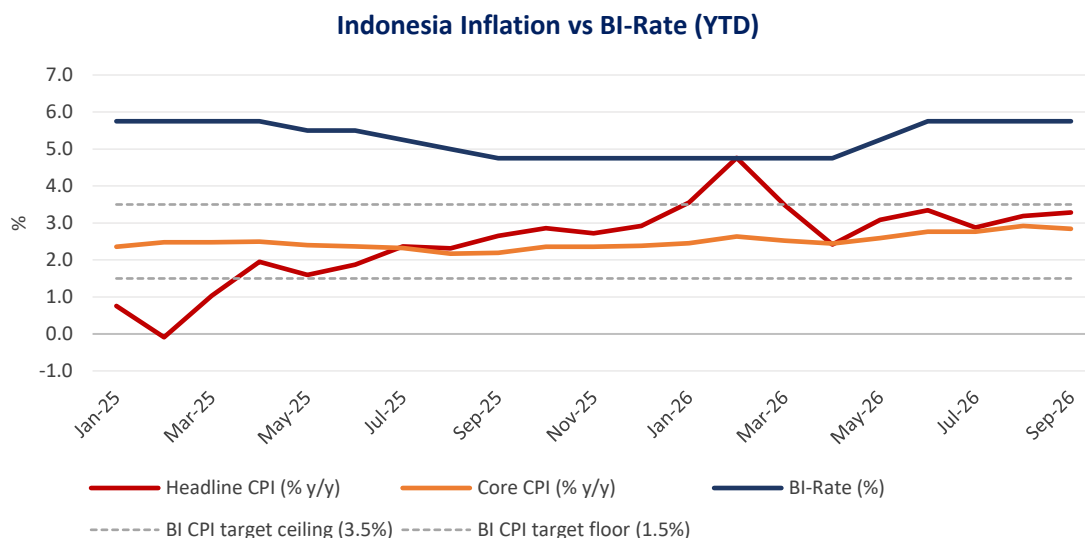


Figure 3: Indonesia Inflation vs BI Rate (January 2025 – June 2026)

Source: BPS, Bank Indonesia; Processed

Bank Indonesia has shifted from rate hikes to a stability-first toolkit. After the cumulative 100 bps of tightening in Q2, Bank Indonesia kept the BI-Rate at 5.75% at its July, August and September meetings; at the 22–23 September Board meeting, under newly confirmed Governor Destry Damayanti, it also lowered the swap hedge premium and DNDF pricing. The rupiah remained volatile but broadly range-bound over the quarter, touching Rp18,105 per US dollar in mid-July and again breaching Rp18,000 in late September as UST yields and the dollar rose, before BI intervention in the spot, DNDF and offshore NDF markets brought it back to Rp17,855 at end-September, little changed from end-June, but about 7% weaker year-to-date. At the same time, BI has started to normalize its liquidity operations: SRBI outstanding was reduced to Rp1,013.5 trillion as of 23 September, down Rp59.1 trillion QoQ from Rp1,072.6 trillion at end-June. On a per-auction basis, BI still absorbed Rp15 trillion on 25 September (from Rp64.1 trillion in bids), slightly more than the Rp13 trillion at the last June auction (26 June), but at a markedly lower 12-month rate of 6.76% versus 7.70% and on a much thinner calendar, with auctions moving to a fortnightly schedule (11 and 25 September) from twice weekly in June. Fewer auctions at lower rates, rather than smaller individual absorptions, explain the decline in outstanding, while foreign-currency instruments (SVBI and SUVBI) are being expanded. In our view, BI is deliberately lowering the cost of its own liquidity instruments while holding the policy rate, keeping its BI-Rate decisions for the rest of the year dependent on both external and domestic data.

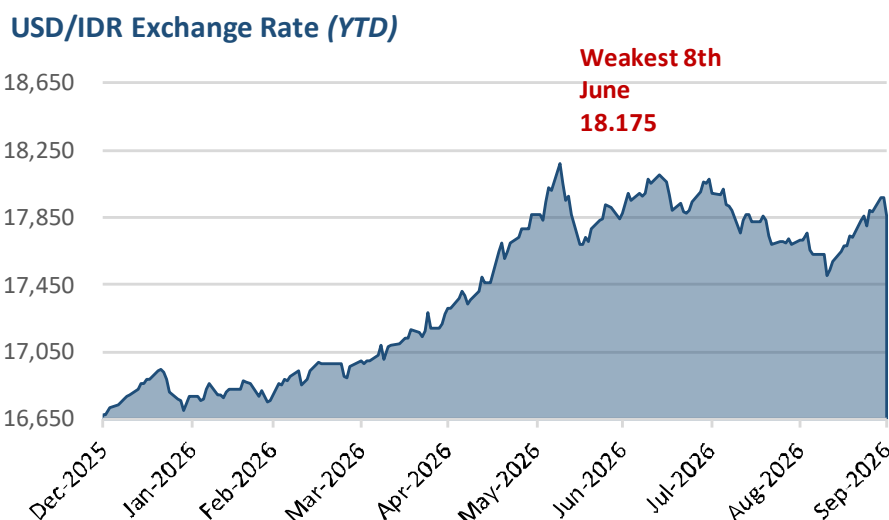


Figure 4: USD/IDR Exchange Rate (YTD)

Source: Bank Indonesia, processed

The external account is the weak link as the oil bill rises. The trade surplus narrowed to just US\$121.9 million in July as imports surged 27.02% year on year against export growth of 6.05%, following the May deficit that ended a 72-month surplus streak. With Brent averaging around US\$84/bbl in July, US\$91/bbl in August and above US\$100/bbl in late September, the oil-and-gas deficit is likely to remain the main drag on the external balance through Q4. Foreign-exchange reserves of US\$146.3 billion in September provide adequate capacity for stabilization, but external stability currently rests on portfolio flows rather than the trade account. Two domestic variables warrant close monitoring, the impact on FX liquidity of the relaxation of export-proceeds retention rules (DHE SDA) for 64 mining exporters effective 1 September, and whether domestic banks sustain their SBN purchases after adding Rp70.14 trillion in September, while Bank Indonesia reduced its holdings by Rp80.09 trillion, and foreign holdings were broadly flat.

Fiscal credibility is now a first-order variable for the bond market. The government replaced Finance Minister Purbaya Yudhi Sadewa with Suhasil Nazara in mid-September; the new minister has emphasized maintaining fiscal credibility and the APBN's role in supporting growth and stability. Budget execution to August recorded a deficit of Rp240.1 trillion, or 0.93% of GDP, with state revenue of Rp2,055.6 trillion growing 25.4% year on year, faster than spending growth of 17.1%, yet the full-year 2026 deficit outlook has been widened from 2.68% to 2.85% of GDP, which implies a heavy Q4 spending and issuance profile. In late September, the House passed the 2027 State Budget (APBN 2027) with a deficit target of 2.40% of GDP (Rp671.2 trillion), assuming 6.0% growth, 2.5% inflation, an exchange rate of Rp17,500 per US dollar, a 10-year SBN yield of 6.9% and crude oil at US\$75/bbl. Three of those assumptions the rupiah, the 10-year yield and oil were already exceeded at end-September, so the market will judge the new minister on whether the 2.40% target is defended through spending discipline rather than additional SBN supply.

Our base case: slower but resilient growth, a policy-rate peak, and a fragile currency. Growth held up better than expected in H1 (5.45%) and September's PMI rebound suggests manufacturing is stabilizing, although tighter financial conditions are likely to keep H2 growth softer. Inflation is rising but remains within the target band, Bank Indonesia has held the BI-Rate at 5.75% since June and is easing liquidity costs through SRBI rather than the policy rate, and the rupiah has been stable QoQ only with the support of intervention. With oil above US\$100/bbl and US yields higher, the balance of risks remains tilted to the external side, making Fed policy, oil prices and fiscal discipline the key variables to watch.

2. Fixed Income Outlook — Q3 2026

SBN composite yields by maturity bucket — June vs September 2026

Maturity bucket	30-Jun (%)	31-Jul (%)	31-Aug (%)	30-Sep (%)	Q3 Δ (bps)
Short (<5y)	7.15	7.01	6.65	6.77	-38
Medium (5–7y)	7.13	7.28	6.90	7.07	-6
Long (>7y)	7.25	7.32	7.10	7.25	0
Long minus short (bps)	+10	+31	+45	+48	+38

Source: PHEI, processed.

INDOGB benchmark series yields — June vs September 2026

Series	30-Jun (%)	31-Jul (%)	31-Aug (%)	30-Sep (%)	YTD at 30-Sep (bps)
FR0109 (5Y)	7.07	7.27	6.83	7.00	+147.36
FR0108 (10Y)	7.14	7.28	6.98	7.12	+106.53
FR0106 (15Y)	7.20	7.31	7.07	7.20	+83.61
FR0107 (20Y)	7.15	7.27	7.08	7.23	+73.25

Source: PHEI, processed.

Q3 2026 reshaped the Indonesian bond curve rather than shifting its level: the 10Y benchmark (FR0108) closed the quarter at 7.12%, virtually unchanged from 7.14% at end-June, after moving through three distinct phases. In July, the market began to price a pause in Bank Indonesia's tightening cycle, pulling the 1Y and 2Y yields down by 25.98 bps and 14.95 bps, respectively, while inflation, Rupiah, fiscal and geopolitical risk premia lifted the 10Y to 7.28%, resulting in a twist steepening. August brought a broad-based bull steepening, as short- and medium-bucket yields fell by 36–38 bps against 22 bps in the long bucket, taking the 10Y down to 6.98%. September partly reversed these gains, as the hawkish Fed, higher oil prices, the surge in UST yields and Rupiah weakness lifted all maturity buckets by 12–17 bps. The net result was a re-steepening from Q2's near-flat curve, on which the 2Y–10Y spread stood at only +4.42 bps and the long-minus-short bucket spread at about +10 bps. By end-September, the short bucket was about 38 bps lower at 6.77%, while the medium bucket was only about 6 bps lower at 7.07% and the long bucket was unchanged at 7.25%. This is consistent with the market's conclusion that the BI-Rate had peaked and with the normalization of SRBI operations, which lowered short-term funding rates, as reflected in the 12-month SRBI rate falling by about 98 bps between 19 June and 25 September. Long tenors, by contrast, remained anchored by the external term premium. For portfolios, the short-duration overweight carried over from our Q2 strategy captured the bulk of the quarter's yield decline, whereas long-duration positions delivered carry but no capital gain on a quarter-end basis.

Yield Curve Shift: End of June vs End of Sept 2026

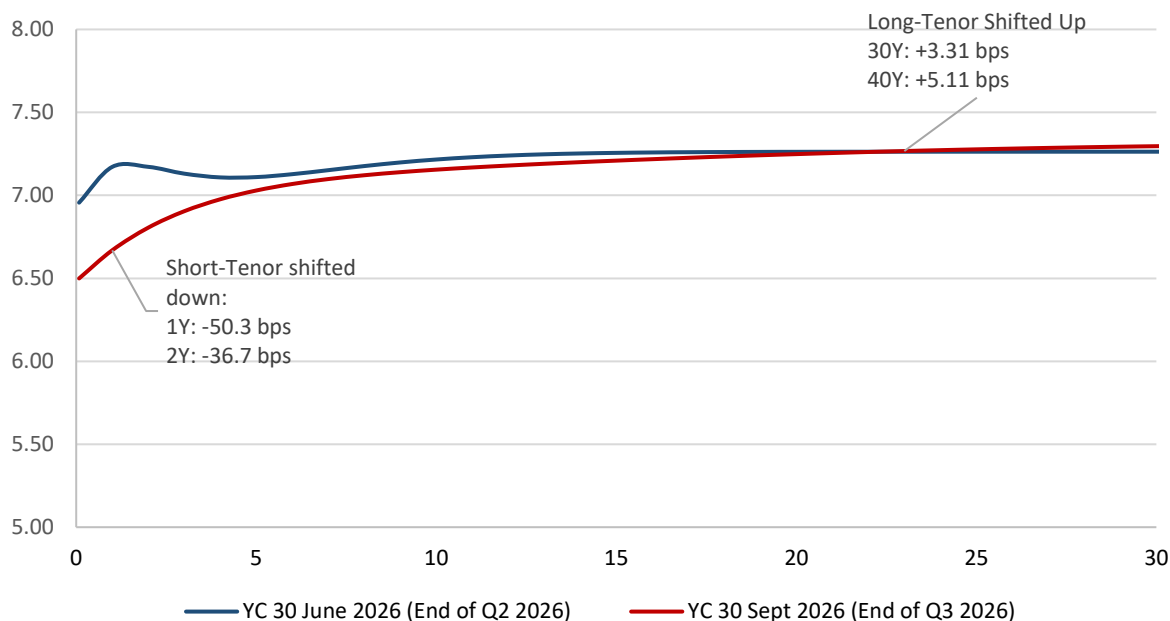


Figure 5: Yield Curve Q2 vs Q3 2026

Source: PHEI, Processed

The INDOGB–UST 10Y spread compressed by about 85 bps over the quarter, from 267.3 bps at end-June to 182.2 bps at end-September, reversing the widening that characterized Q2. Unlike the Q2 movement, this compression was driven almost entirely by the rise in UST yields. The 10Y UST yield rose by about 85 bps over the quarter, from 4.44% at end-June to 5.29% at end-September, its highest level since 2007. Over the same period, the 10Y SBN yield was virtually unchanged. As a result, the spread now sits below its historical average of around 200 bps, leaving domestic bonds relatively expensive against Treasuries. The narrowing carries three implications. First, Indonesia’s yield cushion has thinned materially, because SBN yields were unchanged while UST yields rose, the additional compensation for holding Rupiah duration has fallen, reducing the relative appeal of SBN to foreign investors, consistent with foreign buying stalling in September (–Rp0.34 trillion) despite the earlier inflows. Second, the market has become more exposed to further UST upside with the spread already compressed, any additional rise in UST yields is less likely to be absorbed by spread compression and more likely to pass through to higher SBN yields, in line with our expectation of the 10Y drifting toward 7.48% by year-end. Third, the compression does not signal rising sovereign stress, as the 5Y CDS eased to around 80 bps at end-September from 89.4 bps at end-June, indicating that the narrower spread reflects external rate dynamics rather than a deterioration in perceived credit risk, and that Indonesia’s credit standing offers a partial offset to the thinner valuation cushion.

Indonesia vs US 10Y Bonds Benchmark Yield (YTD)

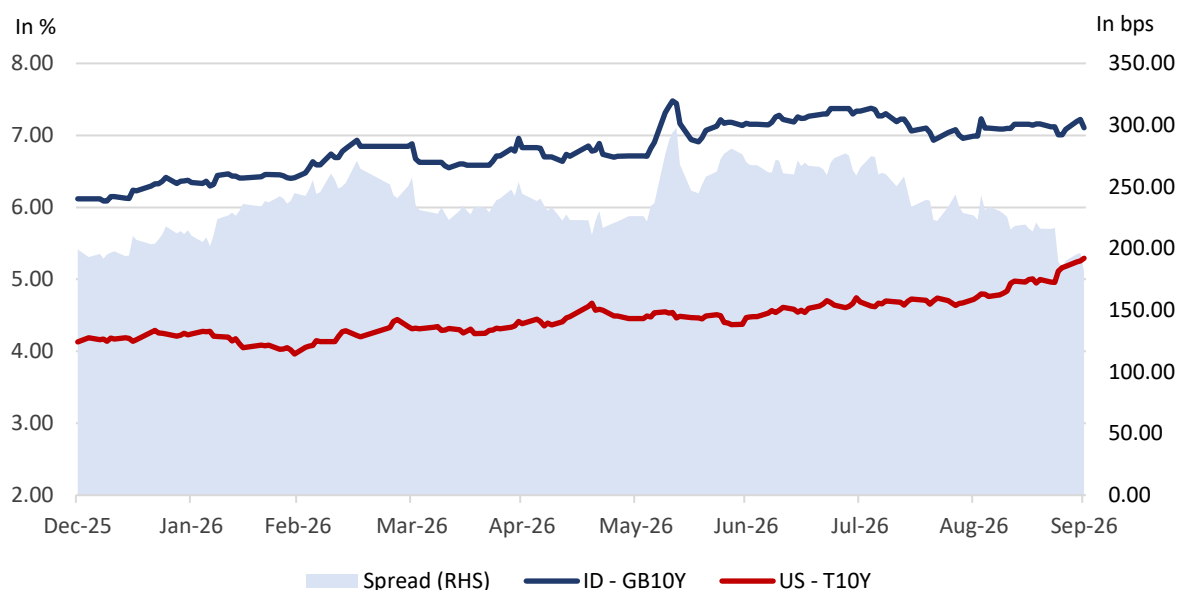


Figure 6: INDOGB vs UST 10Y Benchmark Yield (YTD)

Source: Infovesta, Processed

SBN ownership by investor type — Q3 2026

Investor (Rp tn)	30-Jun-26	30-Sep-26	Δ Q3 (Rp tn)	Growth (%)	Share 30-Jun (%)	Share 30-Sep (%)	Δ Share (bps)
Banks	1,051.26	1,194.03	+142.77	+13.58	15.14	17.10	+196
Bank Indonesia (net)	2,040.41	1,859.40	-181.01	-8.87	29.38	26.63	-275
Non-bank	3,852.57	3,928.35	+75.78	+1.97	55.48	56.27	+79
Mutual Funds	252.06	239.89	-12.17	-4.83	3.63	3.44	-19
Insurance & Pension Funds	1,426.73	1,428.11	+1.38	+0.10	20.55	20.45	-9
Foreign (Non-resident)	885.65	907.45	+21.80	+2.46	12.75	13.00	+24
Individuals	558.30	603.37	+45.07	+8.07	8.04	8.64	+60
Others	729.83	749.53	+19.70	+2.70	10.51	10.74	+23
TOTAL	6,944.24	6,981.78	+37.54	+0.54	100.00	100.00	0

Source: DJPPR – Ownership of IDR Tradable Government Securities (SBN), total SUN + SBSN, positions at 30-Jun-26 and 30-Sep-26. Bank Indonesia net excludes SBN used in monetary operations with banks.

SBN ownership data show that the Q2 rotation reversed in Q3, with domestic banks replacing Bank Indonesia as the main buyer. In Q2, banks cut their SUN holdings by Rp174.81 trillion while Bank Indonesia added Rp196.28 trillion. In Q3 the pattern ran the other way. Banks added Rp163.58 trillion of SUN between end-June and end-September (Rp142.77 trillion across all tradable SBN), and purchases picked up to Rp70.14 trillion in September. Bank Indonesia cut its net SUN position by Rp221.30 trillion (Rp181.01 trillion across all tradable SBN), more than undoing its Q2 buying. Across all tradable SBN, BI's share fell from 29.38% to 26.63% (-275 bps) and banks' share rose from 15.14% to 17.10% (+196 bps). Ample banking liquidity and reduced SRBI absorption by Bank Indonesia created room for these purchases (see the SRBI auction discussion below). However, the respective contributions of SRBI maturities and other monetary operations to the shift in BI and bank positions cannot yet be isolated, so we regard this link as plausible but not yet proven. The investor base also broadened beyond banks. Individuals added Rp45.07 trillion over the quarter, mostly in August (Rp44.18 trillion), lifting their share from 8.04% to 8.64% (+60 bps). Foreign investors added Rp21.80

trillion, concentrated in August (Rp14.86 trillion), then went flat in September (–Rp0.34 trillion) despite the UST shock. The foreign share rose only modestly, from 12.75% to 13.00% (+24 bps). Non-bank financial institutions were broadly flat to slightly lower. A broader domestic investor base helps stabilize the market. However, foreign demand did not pick up even when the Rupiah was strongest in August, which suggests foreign investors remain cautious on currency risk.

SRBI Auction — Q2 vs Q3 2026

Metric	Q2	Q3	Change	% Change
Auction Freq. (#)	19	13	-6	-31.6%
Total Won (IDR bn)	430,458	190,000	-240,458	-55.9%
Avg Won / Auction (IDR bn)	22,656	14,615	-8,040	-35.5%
Avg Yield 6M (%)	6.38	7.11	+0.73	+11.5%
Avg Yield 9M (%)	6.51	7.27	+0.76	+11.7%
Avg Yield 12M (%)	6.68	7.46	+0.78	+11.7%

Source: Bank Indonesia, Processed.

SRBI auction data confirm that Bank Indonesia sharply scaled back its liquidity absorption in Q3. The number of auctions fell from 19 to 13 and the total awarded volume dropped by 55.9% to Rp190.0 trillion from Rp430.5 trillion in Q2, with the average award per auction down 35.5% to Rp14.6 trillion, consistent with BI's move to a lower auction frequency. Outstanding SRBI declined accordingly, from a peak of Rp1,096.86 trillion on 15 July to Rp1,028.15 trillion on 28 September, below the Rp1,072.62 trillion recorded in June. Average awarded yields were nonetheless 73–78 bps higher than in Q2 (12M: 7.46% vs 6.68%), because Q3 auctions began close to the 7.74% peak reached after the Q2 BI-Rate hikes; within the quarter, however, BI steadily lowered rates, bringing the 12M yield down to 6.76% at the 25 September auction. **The release of funds kept banking liquidity ample.** The overnight IndONIA rate fell from a high of 6.61% in June to 5.91% by late September, and BI reinforced liquidity through around Rp387 trillion of FX swap and repo injections year to date and an expanded macroprudential liquidity incentive (KLM) from 1 September. The AL/DPK ratio stood at about 23.0% in August, still comfortably high though marginally below 23.1% in July, as credit growth (13.65% yoy) continued to outpace deposit growth (10.94% yoy). Ample liquidity and fewer SRBI placements therefore left banks with more room to deploy funds into SBN, supporting their Q3 purchases, although the revised KLM scheme, which withholds additional incentives from banks whose securities holdings exceed 19% of their funds, may temper further bank demand going forward.

Model Estimate and Market Outlook

Our bond-valuation model indicates that the domestic government bond market entered Q4 2026 trading rich to fundamentals. As of 17 September, the 10Y INDOGB traded at 7.16% against a model fair value of 7.45%, a gap of about 30 bps and one of the widest in the sample since January 2024. The divergence opened because fair value and market yields responded to different forces over the quarter. Fair value rose by about 30 bps during Q3, driven by the Fed hike, higher UST yields and firmer core inflation, whereas actual 10Y yields barely moved, from 7.14% at end-June to 7.12% at end-September, held by domestic bank demand and lower SRBI rates. Historically, gaps of this size have closed within weeks, and mostly through higher market yields rather than a decline in fair value.

INDOGB 10Y fair-value scenarios — end-Q4 2026

Scenario (probability)	Key assumptions	Model fair value	Expected 10Y range
Bull (20%)	Fed on hold at 4.00%; UST 10Y 4.75%; USD/IDR 17,400; CPI 2.9% / core 2.70%; foreign ownership 13.6%	7.17%	7.00%–7.15%
Base (50%)	Fed on hold at 4.00% through year-end (no further hike priced); UST 10Y 5.125%; BI-Rate 5.75%; USD/IDR 17,750; CPI 3.2% / core 2.85%	7.43%	7.30%–7.45%
Bear (30%)	Fed +25 bps to 4.25%; BI +25 bps to 6.00%; UST 10Y 5.50%; USD/IDR 18,300; CPI 3.5% / core 3.00%; foreign ownership 12.7%	7.78%	7.65%–7.80%
Probability-weighted	—	7.48%	7.35%–7.50%

Source: RCAM bond-valuation model and assumptions

The scenario analysis reinforces the asymmetry implied by current valuations. Our base case (50% probability) assumes the Fed stays on hold at 4.00% through year-end, the UST 10Y at 5.125%, the BI-Rate unchanged at 5.75% and USD/IDR at 17,750, which yields a fair value of 7.43% and implies the 10Y drifting up to 7.30%–7.45% as part of the current richness unwinds. The base case deliberately prices out a further Fed hike this year: although the FOMC projections point to one more move, we prefer to wait for confirmation from incoming inflation and labor data before building it in. The bear case (30%) adds a further 25 bps Fed hike together with a 25 bps BI hike to 6.00%, a UST 10Y at 5.50% and USD/IDR at 18,300, lifting fair value to 7.78%. The bull case (20%), built on a lower UST curve (4.75%) and a firmer Rupiah (17,400), offers only limited upside, with fair value of 7.17% and an expected range of 7.00%–7.15%. Weighting the three scenarios produces **a fair value of 7.48%** and an expected range of 7.35%–7.50%, which is about 36 bps above the 10Y level at end-September. Even the bull case only returns yields to around their current level, so the distribution of outcomes is skewed toward higher yields, with materially more downside to bond prices than upside.

Our View

We expect the 10Y INDOGB to trade around 7.48% (range 7.35%–7.50%) through the end of 2026, in line with the probability-weighted fair value from our model. This view rests on three connected observations. First, the 10Y is trading about 30 bps rich to fair value, and such gaps have historically closed mainly through higher market yields. Second, the curve is expensive at every tenor, so there is no valuation cushion to absorb a renewed rise in UST yields, particularly as the INDOGB–UST spread has already compressed to about 182 bps, below its historical average of around 200 bps. Third, the scenario distribution is asymmetric, with the bear case (7.78%) carrying a higher probability than the bull case (7.17%), and even the bull case offering little capital gain from current levels.

Against this backdrop, we adopt a defensive stance on domestic government bonds. We keep duration neutral-to-short versus benchmark, favoring shorter tenors and carry, and limit activity to tactical trading around data releases and auctions rather than adding structural 10Y exposure. The key catalysts for this view are US CPI (14 October), the FOMC meeting (28 October), Bank Indonesia's October and November Board of Governors meetings, and the size of Q4 SUN auctions. A shift toward

a dovish Fed, a sustained Rupiah recovery or a renewed acceleration in foreign inflows would lead us to revisit the defensive positioning; conversely, a further Fed hike accompanied by BI tightening would move the 10Y toward our bear-case range of 7.65%–7.80%.

3. Equity Market Outlook

Market conditions

The equity market staged a relief rally in 3Q26 before giving back part of its gains in September. From 5,643.19 at end-June, the JCI rose 10.5% in July and 4.6% in August, reaching a quarterly high of 6,686.44 on 8 September, before falling 7.0% in September to close the quarter at 6,071.14. That leaves the index up 7.6% quarter-on-quarter, but still down 29.8% year-to-date (from 8,646.94 at end-2025) and 33.5% below its 9,134.70 peak of 20 January. Market breadth improved materially, with 588 stocks advancing against 243 decliners over the three months.

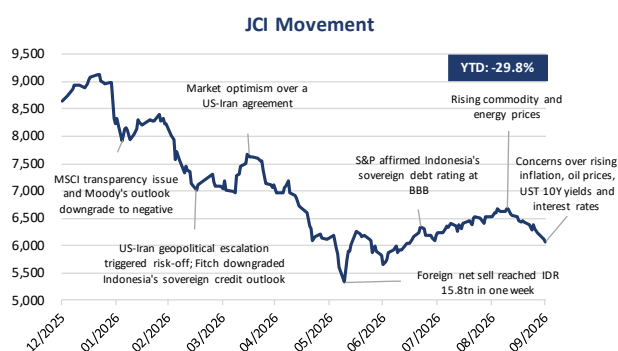


Figure 7: JCI Movement (YTD)

Source: Infovesta, Processed

The quarter split into two distinct phases, a flows-led recovery in July–August and a renewed sell-off in September, shaped by the following factors:

1. **Index relief, but November is the test.** MSCI's June decision to keep Indonesia in Emerging Markets sparked a relief rally, with foreign investors net buyers in July (Rp1.62 trillion) and August (Rp1.19 trillion). MSCI's freeze on index additions, however, remains in place. In our view, MSCI is likely to extend it in November while it waits for evidence that the regulatory reforms are working. Precedents from other markets suggest the length of a freeze depends on how quickly regulators address MSCI's requirements, if they deliver promptly, the freeze could be lifted within a year. FTSE Russell kept Indonesia at Secondary Emerging on 6 October, without a Watch List listing, and will update its treatment ahead of the December review.
2. **Hawkish Fed in September.** The Fed's first hike since 2023 lifted US yields and the dollar, and the IIF estimates US\$26.3 billion left emerging-market stocks and bonds in September. With Brent above US\$100/bbl and the rupiah through Rp18,000, foreign investors sold a net Rp10.25 trillion of Indonesian equities and the JCI fell 7.0%, the weakest among its peers.
3. **Domestic policy noise.** A change of Finance Minister and Ministerial Decree No. 365/2026 (effective 18 September), which restricts miners' use of affiliated contractors, revived concerns over regulatory predictability. Basic Materials (–9.0%) and Energy (–5.2%) gave back part of their quarterly gains in September.
4. **El Niño.** BMKG expects a strong El Niño that may persist into early 2027, cutting rainfall and rice output. In our view, it adds to food inflation (4.37% y/y in September) and limits room for

BI easing, pressuring consumer-staples margins and rural spending while supporting CPO prices and plantation names.

5. **Rp1 minimum share price.** From 28 September, the IDX cut the minimum trading price in the regular and cash markets from Rp50 to Rp1, with a 15% lower auto-rejection limit through end-2026 and symmetric limits from January 2027. The change should improve price discovery for stocks stuck at Rp50, but it adds downside volatility in small caps and does little to address the free-float and transparency concerns that drive foreign allocations.
6. **Foreign ownership at a new low.** Foreign investors sold a net Rp7.44 trillion in 3Q26 (Rp81.04 trillion YTD), and their share of holdings fell to 39.7% from 43.9% at end-2025. A thinner foreign base limits forced-selling risk, but a durable re-rating still needs foreign flows to return.

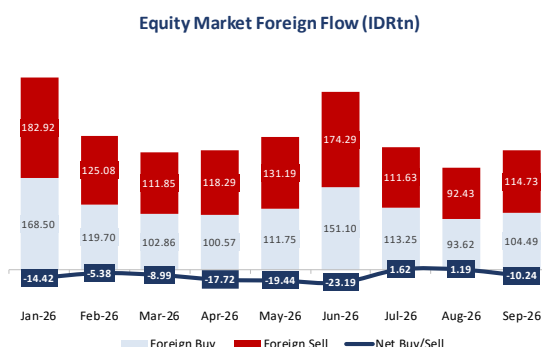


Figure 8: Indonesia Equity Market Flow (YTD)

Source: Stockbit, Processed

Against the broader peer set shown alongside the JCI in the chart below—the S&P 500, Hong Kong’s HSI, Korea’s KOSPI, China’s SSE, Japan’s Nikkei, Singapore’s STI and Malaysia’s KLCI—the third quarter told a different story from the first half. On a quarter-on-quarter basis, the JCI (+7.6%) ranked second, behind only the STI (+9.8%) and level with the HSI (+7.6%), and well ahead of the S&P 500 (+2.0%), the KLCI (−0.8%), the Nikkei (−4.7%), the SSE (−6.2%) and the KOSPI (−19.3%), which gave back part of its outsized first-half gains. The rebound has done little to repair the year, however. The JCI remains the weakest market in the group year-to-date (−29.8%, against +62.3% for the KOSPI, +32.6% for the Nikkei and +11.8% for the S&P 500), and it was also the worst performer in September (−7.0% MoM). This pattern of sharp relief when index-related risk recedes and outsized drawdowns when global risk appetite turns confirms, in our view, that Indonesian equities are trading on flows and investability rather than on fundamentals.

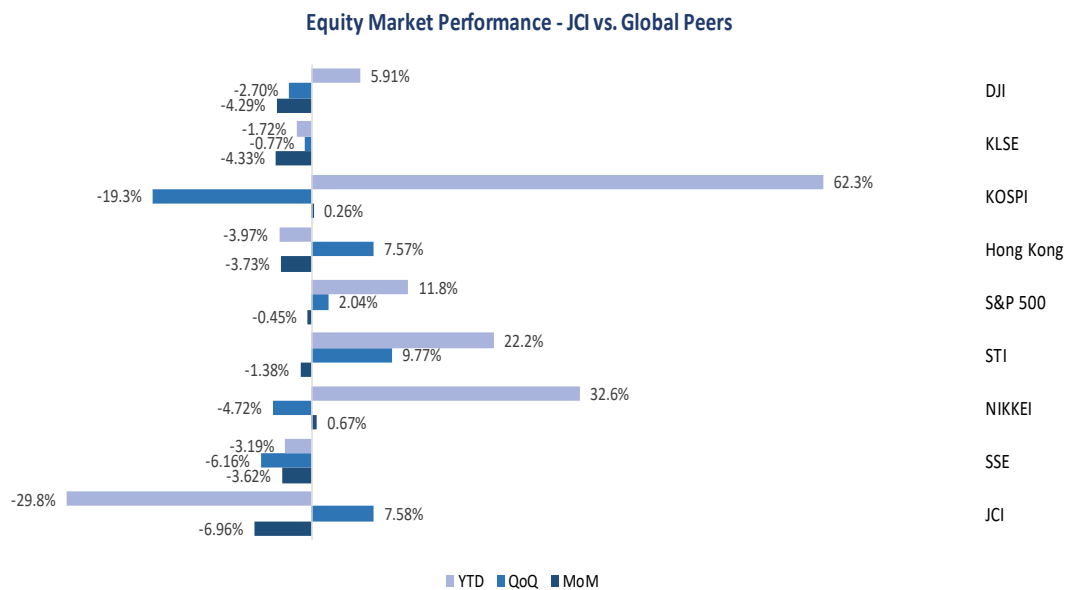


Figure 9: Equity Market Performances – JCI vs Global peers

Source: Infovesta, Processed

Sector positioning

Every IDX sector remains down year-to-date. Technology (–38.4%), Properties (–36.7%), Infrastructure (–36.0%), Healthcare (–31.0%) and Energy (–30.6%) are the weakest, while Transportation (–11.8%), Consumer Non-Cyclicals (–15.6%) and Financials (–15.6%) have held up best. Quarter-on-quarter, however, 3Q26 reversed the pattern of 2Q26: the sectors that led the second-quarter decline led the recovery. Energy (+20.0%) and Basic Materials (+19.6%) rebounded hardest from deeply oversold levels, helped by firmer commodity prices, and Industrials (+14.9%), Transportation (+8.5%) and Consumer Cyclical (+7.5%) also beat the index. Defensives lagged: Financials (+2.3%), Infrastructure (+1.6%) and Healthcare (+1.6%) rose only modestly, and Technology (–6.1%) was the only sector to decline. The rotation shows up in index weights. Energy and Basic Materials rose to 14.3% and 13.9% of market capitalization (from 13.0% and 12.3% at end-June), while Infrastructure fell to 12.9% from 15.1% and Financials eased to 26.4% from 27.2%. September's sell-off was broad-based, with every sector except Industrials (+1.5%) falling and Technology (–14.1%), Infrastructure (–11.0%) and Properties (–10.5%) hit hardest. In our view, the rebound in commodity names owed more to short covering and commodity prices than to any improvement in the policy backdrop, which remains the key risk for these sectors.

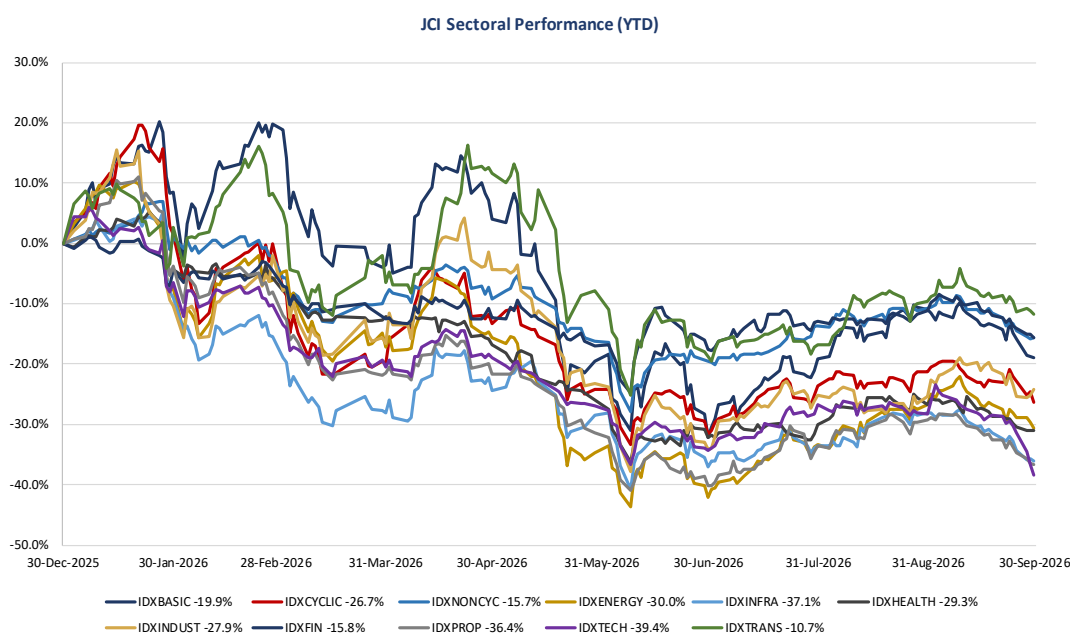


Figure 10: JCI Sectoral Performances (YTD)

Source: Investing.com and Infovesta, Processed

Equity stance

We stay selective and defensive, with an eye on the turn. The third-quarter rally showed how quickly Indonesian equities can re-rate when index-related risk recedes. Valuations remain undemanding, at about 9x forward earnings for the MSCI Indonesia large-cap universe as of end-August, and improving domestic data (September's manufacturing PMI of 52.4 was the highest since February) argue against capitulation. September's reversal, however, is a reminder that a broad re-rating still needs two things, a credible outcome at MSCI's November 2026 Index Review and a stable rupiah despite a hawkish Fed. Until then, we prioritize liquidity, resilient earnings, high USD earnings, low USD debt, pricing power and strong balance sheets, with dividend support as a cushion. We would use weakness around these event risks to add selectively to quality names, expecting the market to shift back toward fundamentally driven stock selection as flows stabilize.

4. Our View

The table below summarizes our key assumptions for the principal Indonesian macroeconomic and financial market indicators until the end of 2026. We present Bear, Base, and Bull scenarios to reflect the range of plausible outcomes given the current macro environment. Our JCI targets come from our IHSG projection model, which applies scenario earnings growth and target P/E multiples to trailing EPS of about 489 index points (12.4x trailing P/E and 1.6x P/BV at 30 September). The base case is assigned a 50% probability, with 25% each for the bull and bear scenarios. On these weights, the probability-weighted end-2026 target is 6,911, about 14% above the 30 September close of 6,071.

Indicator	Current (As of 30 th September 2026)	Bear	Base	Bull
JCI Index	6,071	5,846	6,976	7,846
GDP Growth (%)	5.29*	4.90	5.10	5.50

Indicator	Current (As of 30 th September 2026)	Bear	Base	Bull
USD/IDR	17,855	18,300	17,750	17,400
BI Rate (%)	5.75	6.00	5.75	5.50
10-Year SBN Yield (%)	7.12	7.78	7.43	7.17
UST 10Y Yield (%)	5.29	5.50	5.13	4.75
Brent Oil, avg (US\$/bbl)	103.53	100	90	80

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

- **Base case (50%)** — JCI 6,976 (+14.9%). MSCI's November review passes without a Frontier consultation, the Fed holds after its September hike, Brent averages around US\$90/bbl, the rupiah stabilizes around 17,750 and BI holds at 5.75%. Earnings grow about 7.3% and the market re-rates to around 13.3x, close to its historical average.
- **Bull case (25%)** — JCI 7,846 (+29.2%). MSCI signals that index restrictions will be eased, US inflation rolls over, Brent falls toward US\$80/bbl and the rupiah strengthens toward 17,400, bringing foreign investors back and giving BI room to cut to 5.50%. Earnings growth accelerates to around 8.9% and the multiple expands to about 14.7x.
- **Bear case (25%)** — JCI 5,846 (−3.7%). MSCI moves toward a Frontier consultation, the Fed hikes again, Brent stays around US\$100/bbl and the rupiah weakens to around 18,300, forcing BI to tighten to 6.00%. Earnings growth slows to about 5.8% and the multiple compresses to about 11.3x, below the current 12.4x. Including a dividend yield of about 5%, total return in this scenario would still be slightly positive (around +1.3%).

Asset Allocation Strategy

Our Q4 2026 allocation balances undemanding equity valuations against a hawkish global backdrop and an expensive bond curve. The Fed's September hike, UST 10Y yields near 5.3% and Brent above US\$100/bbl keep pressure on the rupiah and on Indonesian rates. Domestic fundamentals are holding up (2Q26 GDP 5.29%, CPI 3.28%, September PMI 52.4), but BI has little room to ease, and El Niño adds upside risk to food inflation. We therefore stay defensive, keep liquidity high and add risk only selectively.

Equities — Neutral, positive tilt. At 12.4x trailing earnings, our base case points to 6,976 by end-2026 (+14.9%), implying a re-rating to about 13.3x, while our bear case (5,846) implies about 3.7% downside; the path runs through MSCI's November review and further Fed risk. We would add on weakness rather than chase rallies, focusing on liquid large-cap USD earners.

Government bonds (SBN) — Neutral, short duration. The 10Y trades about 30 bps below our fair value, and the whole curve screens expensive. We expect the 10Y to drift to around 7.48% by year-end, so we favor carry in shorter tenors over structural duration and trade tactically around data releases and auctions.

Corporate bonds — Neutral, high grade. Higher funding costs have slowed issuance, but a heavier H2 2026 maturity profile (Rp107.5 trillion) should support new supply. We favor AAA bonds in short-to-belly tenors and selectively chosen short-tenor single-A credits with lower sensitivity to elevated interest rates, aiming to enhance portfolio carry while maintaining a balanced credit composition and prudent risk exposure.

Money market — Overweight. To minimize market exposure amid elevated volatility and uncertainty, we favor increasing money market allocations across our funds. We also prioritize reallocating placements toward higher-KBMI banks to strengthen portfolio quality and liquidity, while maintaining competitive yields and flexibility to capitalize on market opportunities.

The table below summarizes our positioning across the principal asset classes for the fourth quarter of 2026, under the current base case assumptions.

Asset Class	Our Stance
Equities	Neutral, positive tilt
Government Bonds (SBN)	Neutral, short duration
Corporate Bonds	Neutral, high grade
Money Market	Overweight

Equity Sector Preferences

Our sector preferences reflect three forces. Globally, a hawkish Fed, UST 10Y yields near 5.3% and Brent above US\$100/bbl favor USD earners and penalize leveraged, rate-sensitive businesses. Domestically, growth is holding up and manufacturing is recovering (PMI 52.4), but BI is on hold at 5.75%, the rupiah remains weak and El Niño threatens food-price stability. In the market itself, direction still hinges on foreign flows and MSCI's November review, and foreign investors tend to return first through the most liquid large caps. We therefore lean toward liquid quality and clean-balance-sheet USD earners, and away from leveraged and long-duration growth stories. We also remain Underweight Technology (−38.4% YTD; −14.1% in September), where higher yields and index-liquidity scrutiny weigh on valuations.

Sector	Stance	Rationale
Financials (large banks)	Underweight	Money-market liquidity has eased (IndONIA at 5.91%), but bank balance-sheet liquidity is tightening: credit growth (13.65% YoY in August) has outpaced deposit growth (10.94%) since June, lifting the industry LDR to 88.14% from 86.03% a year earlier and drawing down liquid assets (AL/DPK 23.0%, from 27.9% in March). Tighter competition for funding raises deposit costs and pressures margins. Loan growth is also narrow, led by state-owned banks (+16.41%) and corporate investment loans, while MSME (+2.38%) and consumer (+5.07%) lending remain sluggish. Capital (CAR 24.1%) and asset quality (gross NPL 2.11%) are sound, and large banks remain the most liquid route back for foreign investors, so we would revisit the stance if deposit growth recovers or BI's liquidity incentives ease funding pressure.
Consumer Non-Cyclicals	Neutral	The free nutritious meals (MBG) program supports staples volumes, which keeps sector earnings relatively defensive. However, El Niño-driven food inflation and a weak rupiah are

Sector	Stance	Rationale
		raising input costs (wheat, sugar, dairy) just as consumer confidence softens (118.1). We prefer names with pricing power and low import dependence.
Selected Infrastructure	Neutral	Tariff- and contract-based revenue (toll roads, ports, utilities) shields earnings from commodity swings, and valuations are depressed after a weak 3Q26 (+1.6% QoQ; -36.0% YTD). However, rising bond yields and high leverage limit the scope for a re-rating, as both raise refinancing costs for these capital-intensive operators.
Energy & Basic Materials	Overweight (selective)	USD earners that hedge rupiah weakness and benefit from Brent above US\$100/bbl and firm metal prices. The sectors led the 3Q26 rebound (Energy +20.0%, Basic Materials +19.6% QoQ). Policy risk remains high (the DSI mandate, the royalty overhang and Kepmen ESDM 365/2026), and some conglomerate names face MSCI free-float scrutiny. We therefore favor gold and nickel producers with low USD debt over coal names that rely on affiliated contractors.
Property & Construction	Underweight	The most rate-sensitive and leveraged sector, down 36.7% YTD and 10.5% in September. With BI on hold at 5.75%, bond yields drifting higher and a weak rupiah, we see little relief before 2027.
Industrials / Manufacturing	Neutral	The September PMI rebounded to 52.4 (the highest since February) and the sector rose 14.9% QoQ, enough for us to upgrade to Neutral. We remain selective, as a weak rupiah raises imported component costs and softening consumer confidence may cap demand.

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 a continuously challenging environment, our funds have generally shown resilience against their benchmarks. This reflects active portfolio positioning and disciplined risk management.

Recapital Asset Management Fund Performance Review — Third Quarter 2026

The third quarter of 2026 brought a partial recovery after a sharp first-half correction in the domestic capital market. Equities rebounded strongly in July and extended gains in August, then came under renewed pressure in September. The Jakarta Composite Index closed the first nine months at -29.79% year to date (+7.58% in Q3), and the LQ45 Index at -28.99% (+8.69% in Q3). Against this backdrop, RCAM's funds kept their prudent and disciplined approach. They captured the upside during the recovery while continuing to limit losses when the market weakened.

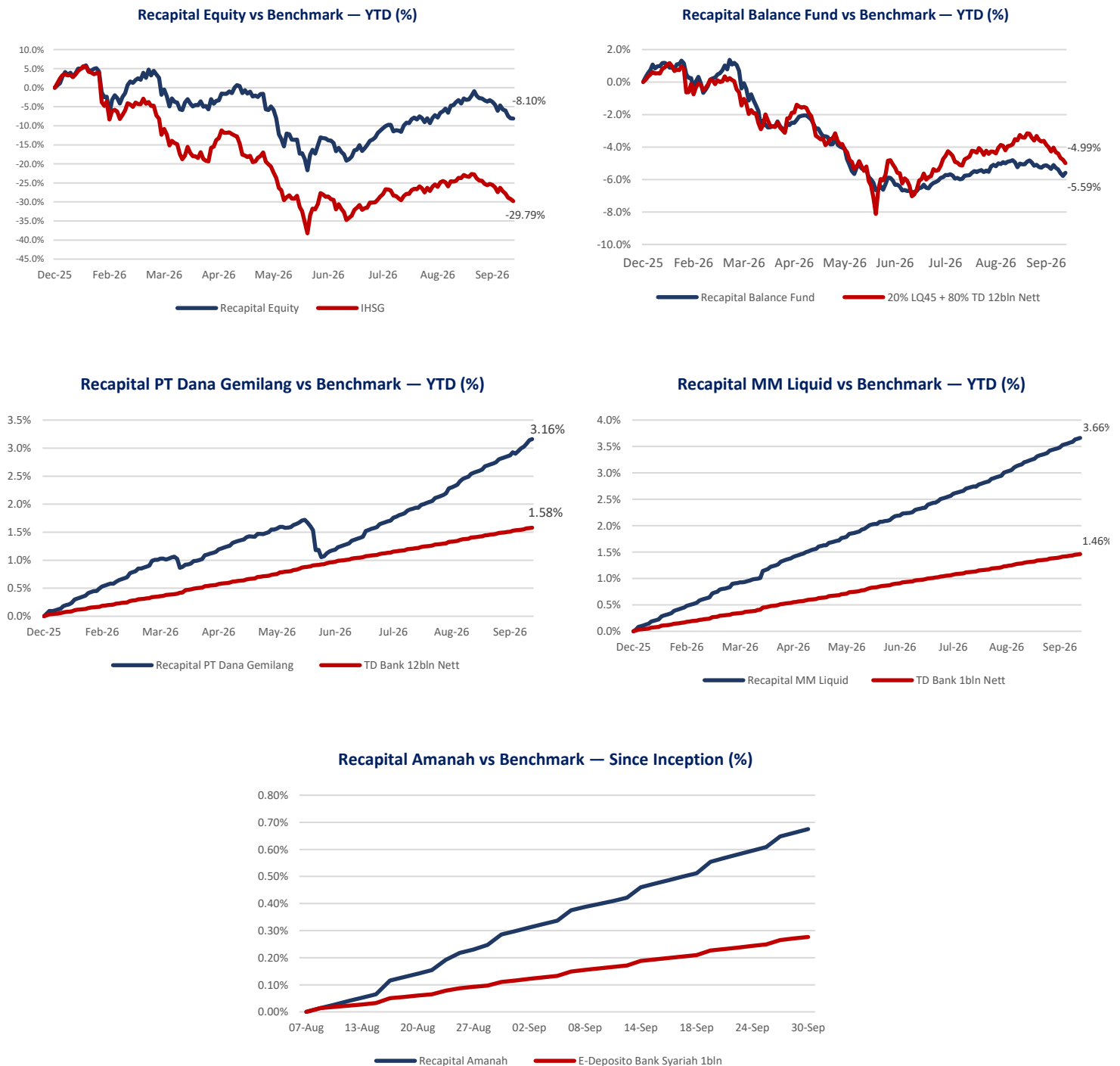


Figure 11: Recapital AM Mutual Funds YTD Performance vs Benchmarks

source: Infovesta, processed

RCEQ (Recapital Equity) delivered the strongest relative performance among RCAM's funds, combining effective downside protection with strong upside capture. The fund closed September at a NAV of 478.48, a year-to-date return of -8.10%. That is well ahead of the Jakarta Composite Index (-29.79%) and the LQ45 Index (-28.99%): outperformance of 2,169 bps and 2,089 bps respectively,

wider than the roughly 1,550 bps lead at the end of June. In the third quarter alone, RCEQ returned 13.72%, against 7.58% for the Jakarta Composite Index and 8.69% for the LQ45. RCEQ beat both indices in every month of the quarter: in July it returned +12.42% in the market rebound, against 10.51% for the Jakarta Composite Index and 12.32% for the LQ45; in August +5.84%, against 4.64% and 3.63%; and in September -4.43% as the market fell back, against -6.96% and -6.62%, an outperformance of 253 bps and 219 bps.

RCBF (Recapital Balanced Fund) continued to show the benefit of spreading the portfolio across equities, fixed income and cash. This kept volatility well below the broader equity market. The fund closed September at a NAV of 779.02, a year-to-date return of -5.59%. Its blended benchmark of 20% LQ45 and 80% twelve-month time deposit returned -4.99%, so the fund trailed by 60 bps, while still being far more defensive than the broader equity market. In the third quarter, RCBF returned 1.27%, against 2.19% for its benchmark; the gap came mainly in July, when the benchmark's equity component recovered faster (1.10% vs 2.54%). The fund then turned ahead, returning 0.99% in August against 0.88% for the benchmark, and declining 0.81% in September against a 1.20% decline, outperforming by 39 bps. The fund keeps exposure to a longer-term market recovery while moderating drawdowns.

RCPTDG (Recapital Pendapatan Tetap Dana Gemilang) recovered strongly in the third quarter after a modest dip in June. The fund closed September at a NAV of 1,064.06, a year-to-date return of 3.16%. Its benchmark, the net twelve-month time deposit, returned 1.58%, so the fund leads by 158 bps, a wider margin than the 33 bps at the end of June. In the third quarter, RCPTDG returned 1.77% against 0.54% for its benchmark, an outperformance of 123 bps. Monthly returns were consistently positive: 0.56% in July, then 0.60% in each of August and September. This reflects steady income generation, prudent duration management and disciplined positioning as the bond market recovered.

RCMML (Recapital Money Market Liquid) remained the most stable of RCAM's funds, supported by consistent income, high liquidity and low volatility. The fund closed September at a NAV of 1,056.46, a year-to-date return of 3.66%. Its benchmark, the net one-month time deposit, returned 1.46%, so the fund leads by 220 bps. Q3 returns were 1.32%, against 0.49% for the benchmark. The fund has posted a positive return in every month of 2026 so far, ranging from 0.33% to 0.45%, with no monthly drawdown. Returns of 0.42%, 0.45% and 0.45% in July, August and September show stable income while keeping the capital preservation expected of a money market strategy.

RSPURA (Recapital Amanah), RCAM's sharia money market fund launched on 7 August 2026, has had a solid start. Since inception it has returned 0.67% to a NAV of 1,006.75, against 0.28% for its benchmark, the one-month Sharia bank e-deposit: an outperformance of 39 bps. In September, its first full month, the fund returned 0.39% against 0.17% for the benchmark. This shows consistent income generation in line with its sharia-compliant capital preservation mandate.

Overall, RCAM's fund performance through the first nine months of 2026 reflected a disciplined, risk-aware approach across asset classes, with the funds holding up well against the market. RCEQ widened its lead over the broader equity market, showing both downside protection and upside capture. That makes it suitable for investors with a higher risk tolerance and a longer investment

horizon. RCBF offered balanced participation in the market recovery with lower volatility than pure equity exposure. RCPTDG delivered steady fixed income returns well ahead of its benchmark. RCMML and RSPURA served as stable options for liquidity needs and capital preservation, with RSPURA offering a sharia-compliant alternative. Together, the funds provide differentiated strategies for different risk appetites, investment horizons and portfolio objectives.

Conclusion

The third quarter of 2026 brought a partial recovery in Indonesian assets, but the sources of risk shifted rather than faded. Domestic conditions stabilized as Bank Indonesia held the BI-Rate at 5.75% after the cumulative 100 bps of tightening in Q2 and began to release liquidity through lower SRBI absorption, the JCI rebounded 7.6% quarter-on-quarter to 6,071.14, and the 10Y SBN yield ended the quarter virtually unchanged at 7.12%. External pressure, however, intensified. The Fed raised its policy rate by 25 bps to 3.75%–4.00% in September, its first hike since 2023, the UST 10Y yield rose to 5.29%, its highest level since 2007, and Brent climbed 42% to US\$103.53/bbl as supply disruptions in the Middle East deepened. September therefore reversed part of the summer's gains, with the JCI falling 7.0%, foreign investors selling a net Rp10.25 trillion of equities, and foreign buying of SBN coming to a halt.

Within the capital market, the quarter confirmed that Indonesian assets are trading on flows, investability and external rates rather than on domestic fundamentals. Equities remain down 29.8% year-to-date at undemanding valuations of around 12.4x trailing earnings, but a durable re-rating depends on MSCI's November review and on the return of foreign investors, whose ownership share has fallen to 39.7%. In fixed income, the curve re-steepened as front-end yields fell on the policy-rate peak and lower SRBI rates, while domestic banks replaced Bank Indonesia as the main buyer of SBN. This domestic support has anchored yields but has also left the curve expensive: the 10Y trades about 30 bps below our model fair value, and the INDOGB–UST spread has compressed to about 182 bps, below its historical average of around 200 bps, leaving a thinner cushion against further UST upside. The easing of the 5Y CDS to around 80 bps nonetheless indicates that this narrowing reflects external rate dynamics rather than a deterioration in Indonesia's credit standing.

Indonesia's macro backdrop continues to provide a constructive anchor, although with less margin for error than in Q2. Growth held at 5.45% in the first half, headline inflation of 3.28% remains within the target band, and FX reserves of US\$146.3 billion provide adequate capacity for stabilization. The buffers, however, have thinned: the trade surplus has narrowed as the oil bill rises, the full-year fiscal deficit outlook has been widened to 2.85% of GDP, implying a heavy Q4 issuance profile, and the Rupiah has remained stable only with the support of intervention. Stabilization into year-end can be tracked through a small set of signals: the outcome of MSCI's November review, the Fed's path after its September hike, Brent easing toward an average of around US\$90/bbl, a steadier Rupiah around 17,750 per US dollar, and the size and absorption of Q4 SUN auctions.

On this basis, we enter the fourth quarter with a defensive but opportunistic stance. We are neutral on equities with a positive tilt, with our base case pointing to a JCI of 6,976 by end-2026, and prefer

to add liquid large-cap USD earners on weakness rather than chase rallies. We are neutral on government bonds with a short-duration bias, as we expect the 10Y to drift toward around 7.48% (7.35%–7.50%) by year-end and favor carry in shorter tenors over structural duration; neutral on high-grade corporate bonds; and overweight money-market instruments for their carry and liquidity. Our funds demonstrated the value of this disciplined approach through the first nine months of the year: RCEQ widened its lead over the JCI to 2,169 bps, RCPTDG and RCMML remained well ahead of their benchmarks, and the newly launched RSPURA made a solid start. Our diversified range allows investors to align equity, balanced, fixed income and money-market strategies with their own objectives, horizons and risk tolerance, while remaining positioned for Indonesia's longer-term structural opportunities.

Important Information

This document has been prepared and distributed by PT Recapital Asset Management strictly for informational purposes only. The content of this report is intended solely to provide general market commentary and analysis and should not be construed as an offer, invitation, recommendation, or solicitation to buy or sell any securities, financial instruments, or investment products.

The information contained in this report has been obtained from sources believed to be reliable; however, PT Recapital Asset Management does not guarantee its accuracy, completeness, or reliability. Any opinions, estimates, forecasts, and projections expressed herein reflect the judgment of the author(s) at the time of publication and are subject to change without notice. Such views may differ from those of other market participants and may not materialize.

This document does not constitute investment advice, legal advice, tax advice, or accounting advice. Recipients should carefully consider their own investment objectives, financial circumstances, and risk tolerance before making any investment decisions and are encouraged to seek independent professional advice where appropriate.

Investments in financial markets involve risks, including the potential loss of principal. Past performance does not guarantee or reflect future performance. Any investment decision remains the sole responsibility of the investor.

This document is intended only for the use of the recipient(s) to whom it is delivered and may not be reproduced, redistributed, published, or transmitted (in whole or in part) to any other party without the prior written consent of PT Recapital Asset Management.

DISCLAIMER:

Investments in mutual funds involve risks. Prospective investors are required to read and understand the prospectus before deciding to invest in mutual funds. Past performance does not guarantee future results. PT Recapital Asset Management is licensed and supervised by the Financial Services Authority (Otoritas Jasa Keuangan – OJK).

Prepared By:**Investment and Research Team – PT Recapital Asset Management**

rcam.investment@recapital.co.id

Recapital Building 10th Floor

Jl. Adityawarman Kav.55, Jakarta Selatan, Indonesia 12160

(021) 27077

Suwono Kusuma

Head of Investment

suwono.kusuma@recapital.co.id

Ajie Katon Suryo

Fixed Income Fund Manager

ajie.suryo@recapital.co.id

Haidee Aditia Iksan

Investment Analyst

haidee.iks@recapital.co.id

Nethania Pingka Darmanto

Investment Analyst

nethania.darmanto@recapital.co.id