

2026 Macro Outlook

Positioning for Resilience: Strong Growth, Bond Stability, and a Shift Back to Quality

Dear Simpan Client,

2025 was a year marked by volatility but also notable resilience. Global markets swung sharply early in the year amid U.S. tariff threats and political uncertainty. Towards the end of the year, Indonesia experienced its own bout of pressure following a cabinet reshuffle and appointment of a new Finance Minister. Yet sentiment recovered quickly. U.S. indices rallied to new highs on the back of strong tech-sector performance. The JCI rebounded and ended at record levels, driven largely by momentum stocks, while blue-chip flows remain muted.

As we look ahead to 2026, investors face another period of transition shaped by three forces: policy alignment, tightening global liquidity, and market rotation. In Indonesia and the U.S., fiscal and monetary authorities are aligned in supporting growth, while Japan's monetary policy normalization is reshaping global funding conditions. These shifts will influence capital flows, currencies, and risk-taking across markets. Domestically, improving fundamentals and attractive valuations may set the stage for renewed interest in quality blue-chip companies.

These trends are unfolding against a constructive backdrop of steady domestic demand, stronger policy coordination, and gradually improving global sentiment. This environment presents both opportunities and important considerations for investors.

Periods of transition require clarity and discipline. Our commitment is to help investors navigate these shifts with confidence and to position portfolios not only for 2026 but for long-term resilience.

We thank you for your continued trust and confidence in us and remain committed to managing your investments with the same dedication and care as ever.



Yours Sincerely,
Julian Thio

Member of the Investment Committee

Recapping 2025: How did our 2025 themes play out?

As we present our 2026 Macro Outlook, we revisit key takeaways from our **2H 2025 Macro Letter** to evaluate if market conditions were in line with our projections.

1. Indonesia's Economic Conundrum: Government Spending, Where Is It?

Our call: Danantara has the potential to emerge as a central orchestrator of Indonesia's industrialization drive. Beyond capital deployment, we see an opportunity for Danantara to partner with the private sector through co-investment schemes. This collaborative model would not only accelerate infrastructure and industrial development but also generate meaningful value-add across strategic sectors, ranging from green energy and digital infrastructure to downstream processing.

What happened: Danantara's early mandate has increasingly shifted toward partnership-driven deployment, underscored by the launch of several co-investment platforms with global and private-sector counterparts. These initiatives span priority areas such as renewable energy, digital infrastructure, and downstream industrial development, indicating that Danantara is evolving beyond a funding vehicle into a coordinating force within Indonesia's broader industrialization agenda. While still in its early phase and currently having a significant amount of cash on their balance sheet, the institutional architecture supporting this collaborative model is already being put in place.

2. Bond Market Resilience Driven by BI Intervention

Our call: Looking ahead to the second half of 2025, we expect BI to maintain a steady hand, balancing its commitment to currency stability with the need to support growth. Against this backdrop, Indonesia's bond market is likely to remain a key anchor of financial market resilience, albeit with a shifting composition in investor preference.

What happened: After delivering two rate cuts in August and September, BI decided to keep rates unchanged at 4.75% to prioritize stability amidst ongoing Rupiah weakness. The bond market remains resilient as domestic investors (banks, pension funds, BI, insurance companies, mutual funds) continue to drive demand. Although there has been a decrease in foreign bond holdings, yields have remained stable and in several cases, even fallen.

3. Foreign Outflows and Domestic Resilience in Indonesia's Equity Market

Our call: While we remain constructive on the long-term value of Indonesia's large-cap equities, near-term momentum has rotated toward the domestic side of the market. Looking ahead, a foreign re-entry is contingent on several key catalysts: improved policy visibility, stabilization of global rates, particularly US Treasury yields, and a more pronounced increase in fiscal disbursement. Until then, local investors are likely to continue playing a dominant role in shaping market direction.

What happened: Domestic investors continued to drive the buying activity across Indonesian equities. In the second half of 2025, foreign investors remained net sellers overall, although they emerged as net buyers in August (~IDR 11T) and November (IDR ~4T). Buying has also been concentrated towards momentum stocks, not blue-chips. Our view is that foreign investors are still adopting a wait-and-see stance, especially given Indonesia's new political environment under the Prabowo administration and the new MoF.

4. US Exceptionalism Through Crises: Still Standing Strong

Our call: Despite short-term headwinds, the United States continues as a beacon of stability, performance, and resilience through its exceptionalism.

What happened: The U.S. economy and equity market continued to demonstrate strong outperformance. Q2 GDP grew 3.8% YoY, and Q3 GDP is projected to be ~3% YoY, although data is not yet available due to the government shutdown which delayed key economic data. In equities, major indices (S&P 500, Nasdaq Composite) rallied to new highs, supported by continued euphoria around AI-related names.

Key Takeaways

Domestic Outlook

1. Fiscal and Monetary Policy Alignment: Kickstarting the Growth Engines

- Indonesia sees continued economic growth in 2026, given more accommodative fiscal and monetary policies.
- Danantara likely to be the main catalyst for growth, although it will take time for effects to show.

2. Domestic Investors as the Savior of Bond Yields – The New Normal

- Foreign ownership of Indonesian Government Bonds are at decade lows, but impact to yields are minimal.
- Bond market sees resilience in the coming years, with domestic investors absorbing supply.

3. Shifting Tides: From Momentum Stocks to Blue-Chips

- 2025 was the year of momentum stocks; blue-chips stayed quiet as foreign flows were muted.
- Blue-chips are expected to see flows in 2026, as valuations are at multi-year lows.

Global Outlook

4. U.S. Resilience Poised To Extend Into 2026

- Global markets (especially the U.S.) saw turbulence in early 2025, but risk appetite soon recovered with markets reaching fresh highs.
- A global rate-cutting cycle and reduced policy uncertainty should improve investor sentiment and drive flows in 2026.

5. Unwinding The Carry Trade, What's The Alternative?

- Economic structural changes in Japan dismantle the foundations of the Yen carry trade.
- As the yen loses its funding dominance, markets shift to costlier alternatives, tightening leverage and heightening rate and FX shock risks in 2026.

Indonesia's economy sees growth acceleration in 2026, driven by supportive fiscal & monetary policies

1. Fiscal and Monetary Policy Alignment: Kickstarting the Growth Engines

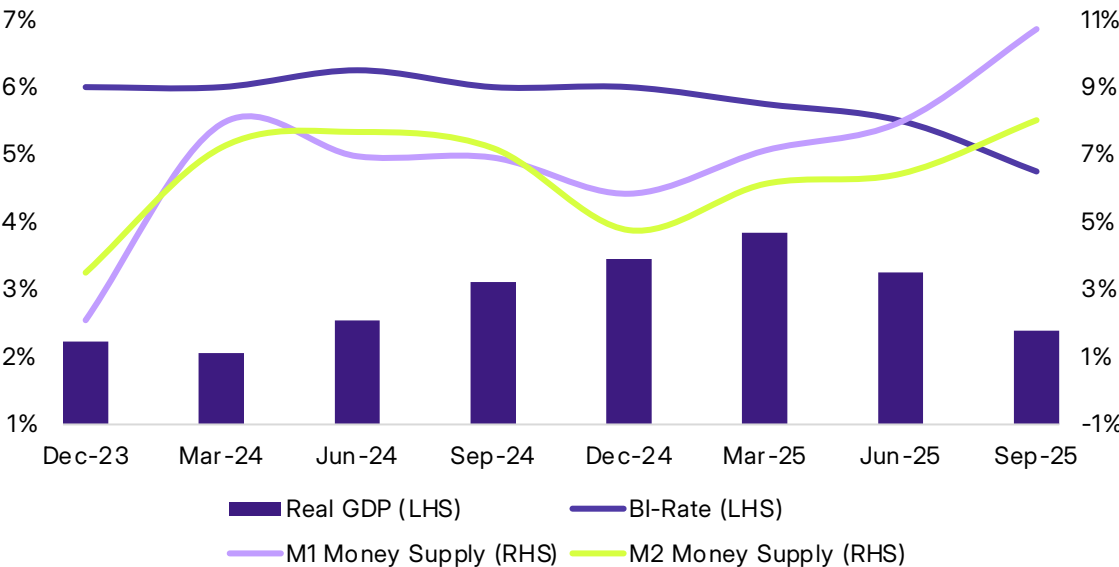
Indonesia's structural growth narrative remains firmly intact. The economy continues to deliver more than 5% annual GDP growth, supported by underpenetrated industries, rising productivity, and a favorable demographic profile. Entering 2026, policy direction appears increasingly tilted toward growth acceleration, anchored by more expansionary fiscal measures and an accommodative monetary stance.

On the fiscal side, the government has set a 2026 fiscal deficit target of -2.48% of GDP, supported by projected state revenue of IDR 3,148 Tn and state expenditure of IDR 3,786 Tn. While these estimates reflect a pro-growth posture, we maintain a cautious view. Several large-scale populist programs, such as the Free Nutritious Meal Program (MBG), Village Cooperative Program (KDMP), Internet for the Public (IRA), and the 3 million Houses Program, pose meaningful upside risks to expenditure. At the same time, revenue growth is expected to remain modest, weighed down by softening commodity prices and the government's decision not to raise cigarette excise taxes or introduce new tax measures in 2026. This combination increases the likelihood of a wider-than-planned fiscal deficit. Stronger fiscal spending will likely inject additional liquidity into the banking system, supporting stronger household consumption. However, as domestic demand strengthens, inflation is expected to drift higher in 2026, though still within the government's target range of 1.5-3.5% YoY.

On the monetary front, Bank Indonesia (BI) is expected to sustain its accommodative stance next year, supported by a globally dovish backdrop, inline inflation target, and a strong fiscal-monetary coordination to push growth higher. However, this dovish posture may come with trade-offs. A narrower interest rate differential with the U.S. could heighten the risk of Rupiah depreciation, compounded by a potentially wider fiscal deficit and a narrowing trade surplus due to moderating commodity prices and the impact of U.S. reciprocal tariffs. These dynamics may increase near-term pressure on the currency and long-term bond yields.

Nonetheless, credible policy coordination, Indonesia's solid medium-term growth prospects, and an improving global risk environment could attract renewed capital inflows. Looking ahead, Indonesia's GDP growth is forecast to edge up to 5.1% YoY in 2026, underpinned by supportive fiscal and monetary policies. Stronger household consumption, rising investment momentum, and robust government spending are expected to remain the key pillars of growth.

Improvements in the money supply possess opportunity for consumption to improve



Danantara will be a major catalyst in fueling Indonesia's growth, but it will take time for the full effects to be realized

The Wild Card: Danantara Fueling the Growth

The launch of Danantara has long been viewed as a potential catalyst for Indonesia's structural growth agenda. While the sovereign fund is still in its early phase, resulting in sizable unutilized capital, we remain optimistic about its medium-term contribution to the domestic economy. **We expect a gradual deployment of capital into the domestic capital markets, particularly equities, which could provide an additional source of demand and help lift the JCI to new all-time highs.**

While the near-term impact of Danantara may appear muted, its long-term potential remains substantial. As capital deployment accelerates, partnerships deepen, and SOE reforms take shape, Danantara is well-positioned to serve as a structural driver of economic resilience and market performance.

Overall, we expect its influence to grow more visible over the coming quarters, supporting investment flows, strengthening key sectors, and contributing to Indonesia's next leg of sustainable growth.

Source: Simpan Asset Management, Bank Indonesia (BI), Ministry of Finance (MoF), Bloomberg. Data as of 8 December 2025

2. Domestic Investors as the Savior of Bond Yields – The New Normal

Foreign participation in Indonesia’s government bond market has continued to decline, falling to about 14% of outstanding SBN - its lowest in more than a decade. Despite this, the market has remained remarkably stable. In the 2025 regime, episodes of foreign selling did not push yields higher; in several cases, yields have even fallen. The shift is driven by the rise of domestic institutions - banks, insurance companies, pension funds, mutual funds, and Bank Indonesia - which now collectively determine marginal demand and anchor the yield curve.

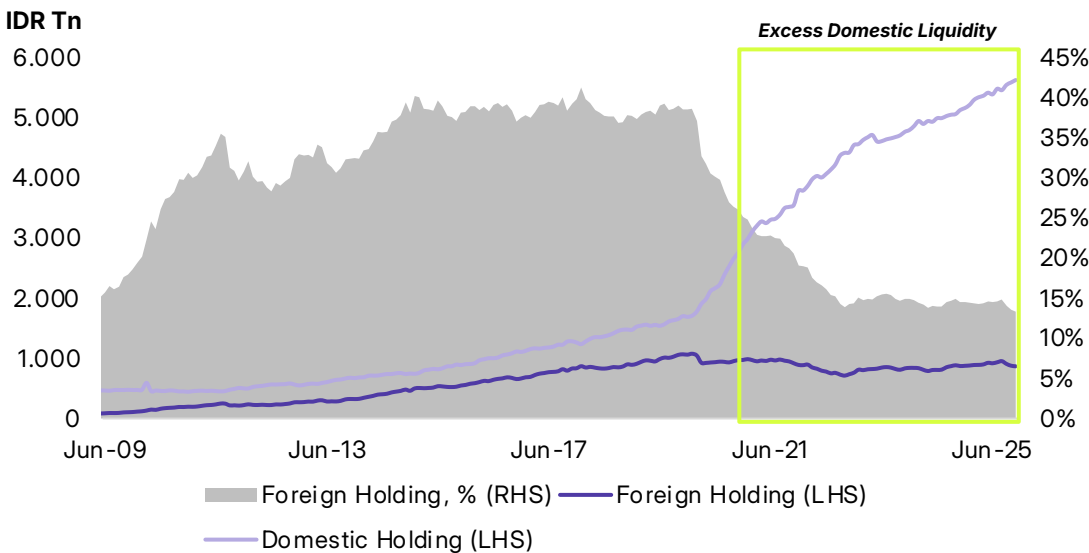
Our statistical analysis confirms that the impact of foreign flows has weakened materially. Under normal market behavior, a full foreign liquidation would move 10Y yields by only 0 – 5 bps, as domestic investors reliably step in due to attractive carry and structural duration needs. Even in a hypothetical “no absorption” stress test – where foreigners sell IDR 868 trillion, and domestic buyers do nothing - historical sensitivities suggest yields would rise only 40 – 80 bps, while flow-based models give an upper-bound estimate of +120 bps. This would place the 10Y yield around 7.0 – 7.3%, a level at which domestic demand historically accelerates, preventing sustained dislocation.

Domestic balance sheets also show ample capacity. Historical peak holdings suggest Bank Indonesia, banks, and non-bank institutions have ~IDR 764 trillion of proven headroom, absorbing ~95% of an IDR 800 trillion foreign exit. Additional support could come from mutual funds, SOEs, households, or modest expansions above past peak levels. Most times, banks purchase bonds at 6.7 – 7.0%, insurers and pension funds in the mid-6%, and BI around 7.0 – 7.8% (to insulate the backdrop in yields), further reinforcing a natural yield floor and clear domestic “buy zones”. Combined, these dynamics demonstrate that Indonesia’s bond market is now structurally resilient, domestically anchored, and far less vulnerable to foreign outflow risk than in previous cycles.

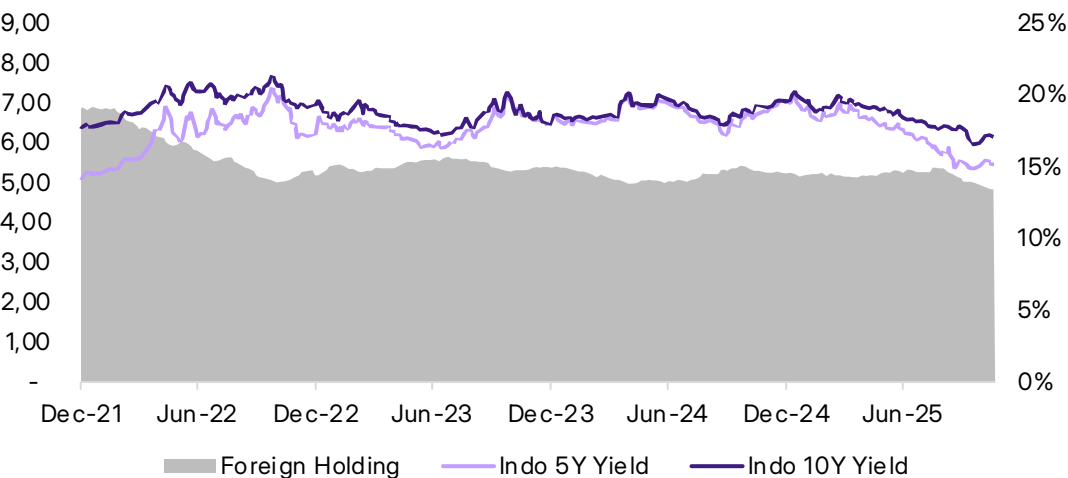
Although Indonesia’s bond market enters 2026 with a stronger domestic anchor, we think there will be periods where mid to longer-term bond yields pose risks, given the widening fiscal deficit and weakening Rupiah. We view longer-term bond yields as slightly overvalued and do not necessarily compensate for the risk in the Indonesian economy. 2026 yields should be broadly stable due to stronger domestic absorption, which would limit volatility. However, we think that mid- to long-term yields could rise slightly due to the government’s economic agenda.

Bond market sees a structural shift; foreign selling has had minimal impact on yields as domestic investors dominate demand

Domestic intervention, particularly from BI has supported Bond yields despite a significant low foreign ownership



Indonesia’s 5Y and 10Y bond yields have declined YTD despite a decrease in foreign ownership



3. Shifting Tides: From Momentum Stocks to Blue-Chips

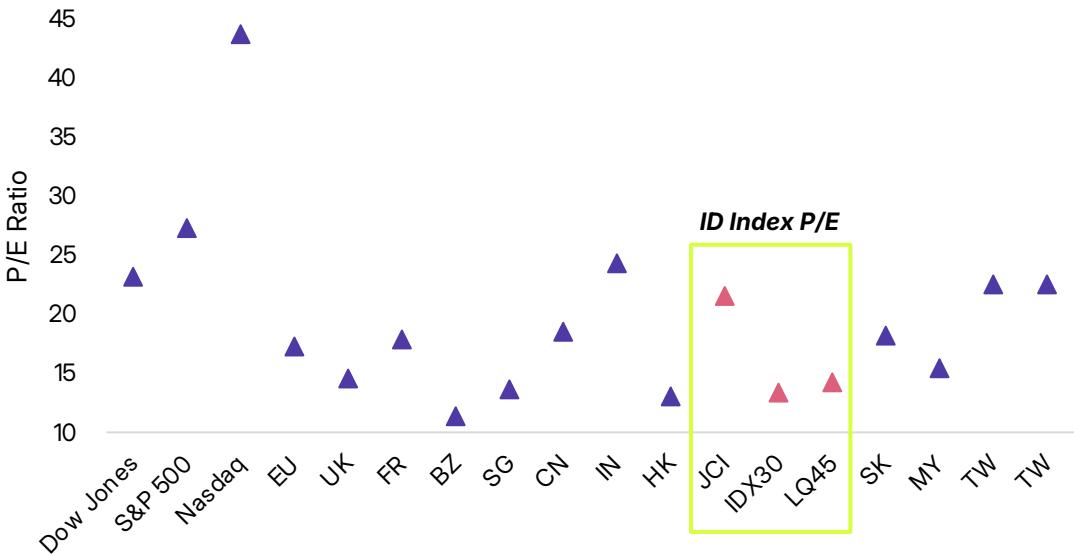
2025 was a year dominated by conglomerate and momentum-driven stocks, with both retail and institutional flows powering their outperformance and lifting the broader JCI. This trend emerged largely because foreign investors stayed on the sidelines, reducing exposure to traditional blue-chip names and creating an unusual divergence in performance. However, we see strong indications that this dynamic may reverse going into 2026. Indonesian equities are currently trading at historically low valuations, while earnings from most blue-chip companies have already reflected a weak year, setting a low base for a meaningful rebound in 2026. As macroeconomic conditions improve and global investors re-enter risk assets amid a synchronized policy easing cycle, Indonesia stands out as a compelling destination given its structural growth narrative and relatively attractive risk-reward profile.

Early signs of growth re-acceleration, combined with greater clarity on the government’s long-term reform agenda, including capital market deepening, downstream industrialization, and digital infrastructure expansion, could act as catalysts for renewed foreign inflows. Historically, periods of low valuation, policy support, and improving fundamentals have preceded strong re-rating cycles in Indonesia. If global liquidity turns favorable, the under-owned blue-chip stocks may be the first to benefit from a rotation back into quality, liquid names. In this environment, we believe a disciplined approach centered on active stock selection and strategic timing will be critical to capture the inflection effectively, especially as dispersion between winners and laggards is likely to remain high.

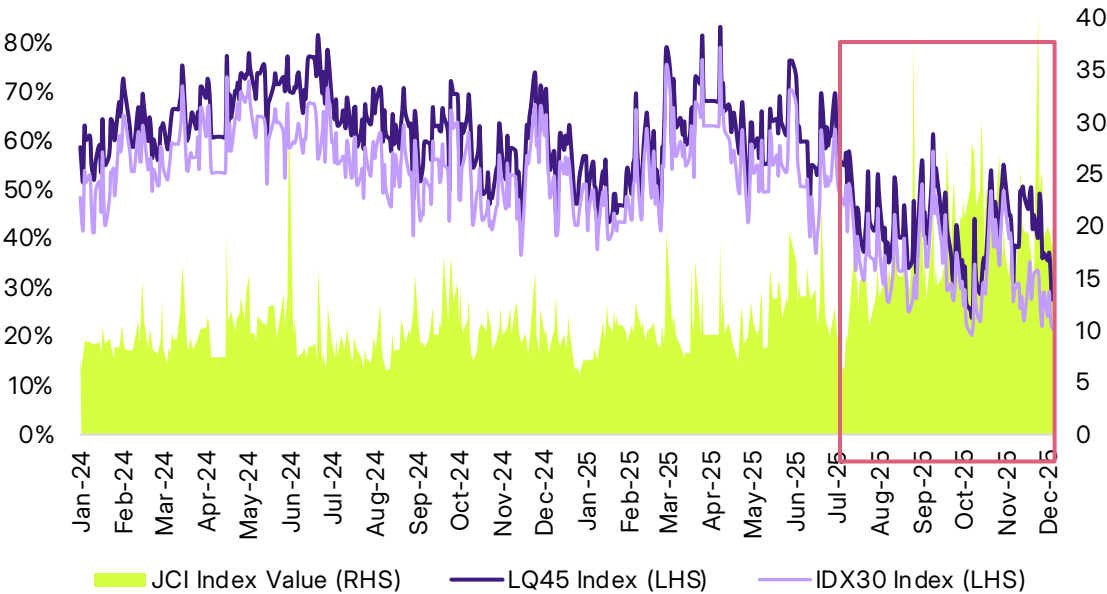
With valuations at multi-year lows, a cyclical earnings recovery underway, and global liquidity conditions becoming more supportive, 2026 offers a strong setup for a potential reversal in flows back into Indonesian blue-chip equities. As market leadership shifts away from momentum names toward fundamentally stronger companies, investors who employ stock selection and tactical positioning may be best placed to benefit from the next leg of Indonesia’s equity market re-rating.

Momentum stocks drove the JCI’s gains in 2025 while blue-chips stayed quiet, but we expect to see flows back into blue-chips in 2026

The IDX30 and LQ45 trades at a significantly lower valuation than the JCI, indicating that there is room for growth for Blue-Chip equities



Flows within blue-chip indexes have decreased while JCI flows remain high as euphoria around momentum stocks remains fueled by retail investors



Source: Simpan Asset Management, Indonesia Stock Exchange (IDX), Bloomberg. Data as of 8 December 2025

Resilient growth, solid market performance, and easing inflation in 2025 position the U.S. economy for a steadier 2026

4. U.S. Resilience Poised To Extend Into 2026

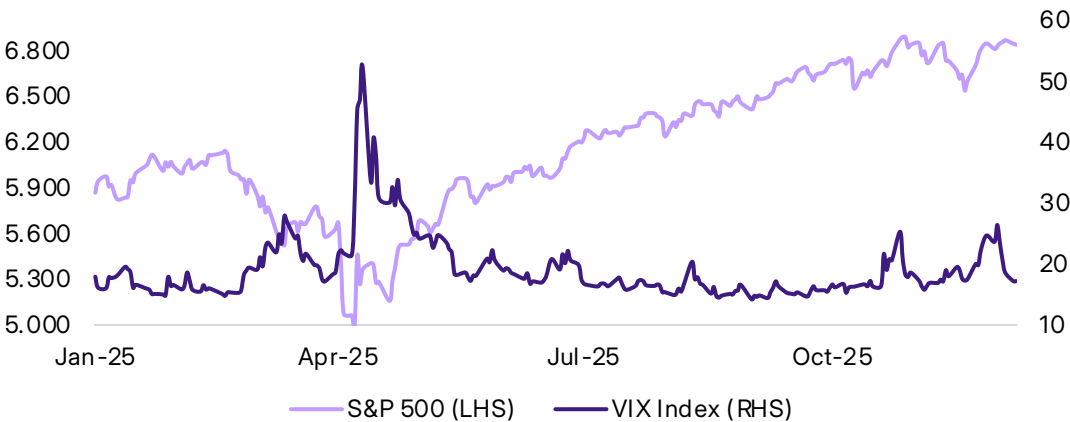
In 2025, the U.S. economy had a resilient performance. After a modest contraction of -0.6% (annualized) in real GDP in Q1, the economy rebounded strongly in Q2, with real GDP growth of 3.8% YoY. Q3 GDP data is not yet available due to the recent government shutdown which delayed key economic data, but economists predict growth to be ~3% YoY. On inflation, the CPI reached ~3.0% by September 2025. Although this reflects a retreat from previous highs, price pressures remained elevated relative to pre-pandemic era, especially in sectors such as energy and certain goods.

U.S. equities delivered strong performance despite a volatile start. Market turbulence peaked in March and April following President Donald Trump’s “Liberation Day” tariff announcements, which triggered a broad-based sell-off across global equities and pushed major indices such as the S&P 500 and Nasdaq Composite to early-year lows. However, the sell-off was rather short-lived; risk appetite soon recovered, with markets rallying to new highs in recent months. Equity gains were largely driven by the Technology sector, as AI-related names continued to dominate the narrative on the back of robust Q3 earnings and sustained investment in productivity-enhancing infrastructure. Nevertheless, **elevated valuations leave the sector vulnerable, and questions around whether AI enthusiasm is evolving into a bubble are likely to persist as investors look for clearer evidence of monetization and sustained profitability.**

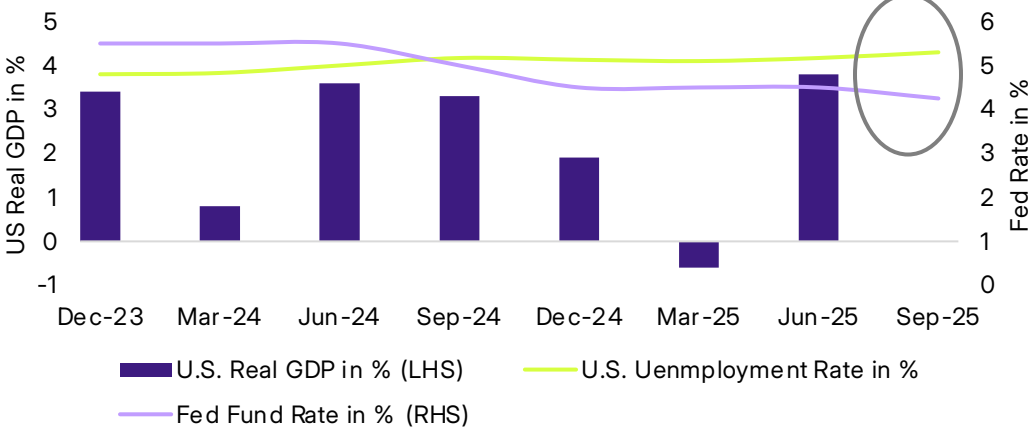
Fixed income also delivered positive returns, though in a more uneven pattern. Higher starting yields were the main driver of performance. However, shifting expectations for Federal Reserve policy, a widening fiscal deficit, and heavy Treasury issuance kept rate volatility elevated. In this environment, duration exposure and credit positioning required greater selectivity, with fixed income serving less as a traditional hedge and more as a source of carry and tactical opportunity.

A global rate-cutting cycle improves the macro backdrop for U.S. assets, but it is important to stay cautious given markets are at toppish levels. Elevated valuations leave equities more vulnerable to negative surprises, suggesting that 2026 might see volatility and moderate returns compared to this year. In fixed income, yields have trended lower but remain elevated, while inflation is expected to stay around 2–3% amid tariff pressures. At current levels, Treasuries offer limited compensation for risk and volatility, making other fixed income asset classes with stronger yields spreads more attractive.

Despite early year volatility, the S&P 500 continues to reach new highs



U.S. GDP continues to grow even amidst a softening labour market



Source: Simpan Asset Management, Bloomberg. Data as of 8 December 2025

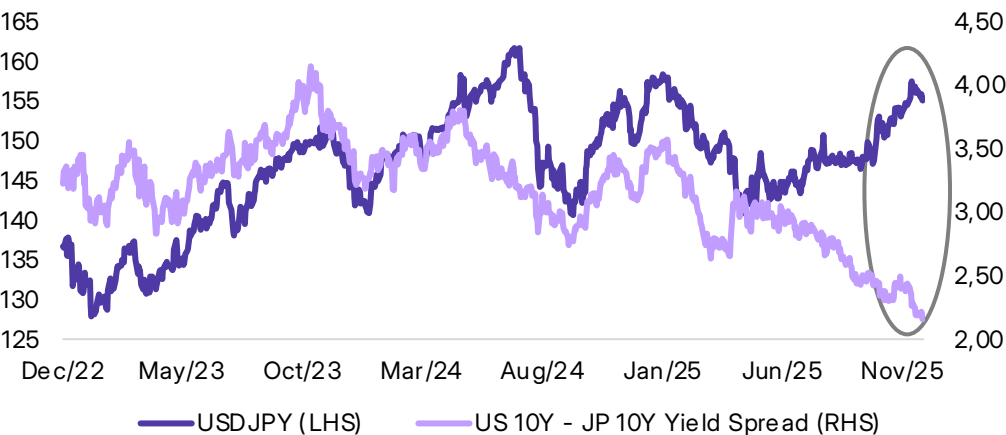
5. Unwinding The Carry Trade, What's The Alternative?

Japan enters 2026 at a structural turning point, with rising inflation, long-end JGB yields surging to multi-decade highs, and the yen already strengthening after years of engineered weakness. These shifts are dismantling the two pillars that supported the yen carry trade for more than 25 years: ultra-low interest rates and a predictably weak currency. **As Japan moves toward policy normalization and domestic yields challenge BOJ control, the economics of borrowing yen collapses.** This forces investors to unwind an estimated \$20 trillion in yen-funded positions across global bonds, equities, credit, and crypto, exposing a web of leverage that magnifies volatility. Whether the adjustment unfolds gradually or cascades into rapid deleveraging, Japan has re-emerged as the core driver of global liquidity conditions.

Japan's policy shift is breaking the yen carry trade and turning Japan into the key driver in question for global liquidity and volatility in 2026

Japan enters 2026 at a turning point as rising inflation, higher JGB yields, and a strengthening yen dismantle the foundations of the decades-old yen carry trade. The unwind of yen-funded leverage threatens global liquidity, forcing deleveraging across bonds, equities, credit, and crypto. Whether this adjustment is orderly or disruptive will determine the volatility regime for all major asset classes in 2026.

The Yen has strengthened in recent years as the U.S. -Japan yield spread compresses, eroding the core incentive for global carry trades



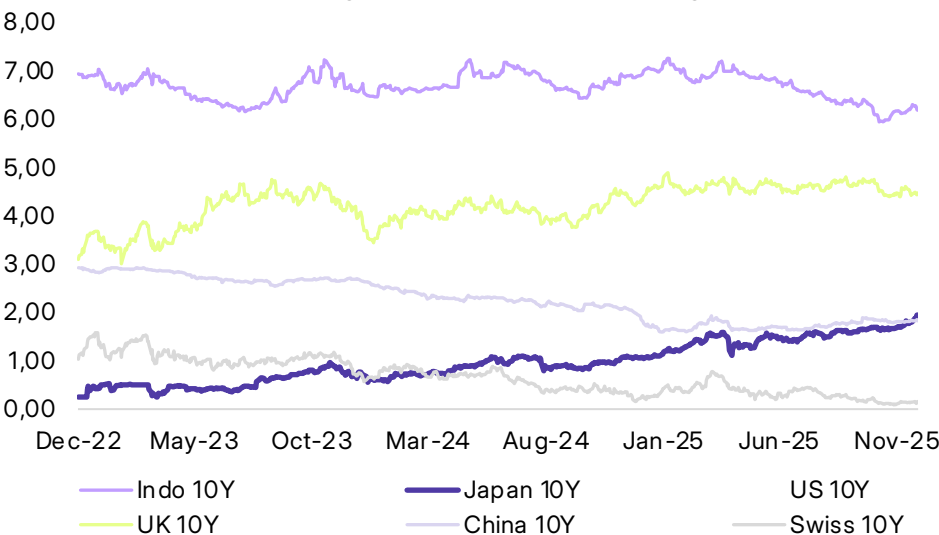
The Search for a New Funding Currency

With the Yen losing its status as the world's cheapest and most stable funding currency, global markets must inevitably search for alternatives — but none replicate Japan's unique combination of low rates, deep liquidity, and predictable policy. The Swiss Franc (CHF) becomes the closest substitute, offering low yields and safe-haven characteristics, though its market size limits scalability. The Euro (EUR) may absorb part of the funding role due to its large bond market and historically moderate rates, but political fragmentation poses risks. The U.S. dollar (USD) could return as a funding currency only if the Federal Reserve enters a meaningful easing cycle. This imperfect set of alternatives increases fragility: with no true replacement for the yen, the global financial system enters 2026 with tighter liquidity, reduced leverage capacity, and a higher sensitivity to interest-rate and currency shocks.

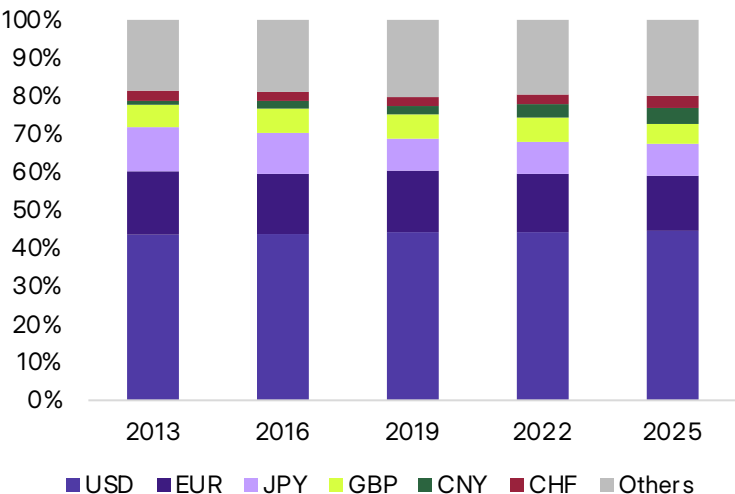
With no true replacement for the yen as a funding currency, global markets enter 2026 with tighter leverage capacity and greater vulnerability to rate and FX shocks

As the yen loses its role as the world's cheapest funding currency, global markets must transition to alternative funding sources such as the Swiss Franc, Euro, or eventually the U.S. dollar. None offer Japan's unique blend of low rates and deep liquidity, leaving the carry landscape more fragile and fragmented. This shift marks a new era of tighter leverage capacity and heightened sensitivity to rate and currency shocks in 2026.

Japan's 10Y yield has risen sharply towards developed market levels, ending decades of ultra-low funding costs



USD and EUR dominates the global FX liquidity, highlighting the lack of a Yen carry trade substitute



Source: Simpan Asset Management, Bloomberg. Data as of 8 December 2025

Appendix: Macro Dashboard

Indicators (as of 11 December 2025)	Indication	Data
Global Indicators		
Dollar Currency Index	Strong	98.69
US GDP Growth (Y/Y)	Neutral	4.60%
US CPI (Y/Y)	Strong	3.00%
UST 10Y vs. UST 2Y	Narrow Spread	0.60%
UST 2Y vs. UST 3M	Narrow Spread	-0.41%
UST 10Y - US CPI	Wide Spread	1.12%
MSCI World P/E	Expensive	23.65x
MSCI World Earnings Yield	Expensive	4.23%
MSCI World Earnings Yield vs UST 10Y	Narrow Spread	0.10
Indonesia Macro Indicators		
Indonesia GDP (Y/Y)	Weak	5.04%
Indonesia CPI (Y/Y)	Weak	2.72%
Current Account as a % of GDP	Strong	0.07%
Trade Balance as a % of GDP	Weak	0.04%
M2 Supply (Y/Y)	Weak	7.71%
Retail Sales	Weak	4.33%
Unemployment Rate	Strong	4.32%
Government Expenditure as a % of GDP	Weak	0.56%
Government Revenue as a % of GDP	Weak	0.46%
Government Debt as a % of GDP	Strong	40.19%
Consumer Credit as a % of GDP	Strong	0.38%
Growth Indicators		
BI Consumer Confidence Index	Strong	124.00
Indonesia Industrial / Manufacturing Index	Strong	51.66

Indicators	Indication	Data
Real Returns		
Indonesia GDP - CPI (Y/Y)	Wide Spread	2.32%
IDR 10Y Bond Yield - Indonesia CPI (Y/Y)	Neutral	3.46%
IDR 2Y Bond Yield - Indonesia CPI (Y/Y)	Neutral	2.37%
Bond Characteristics		
Central Bank' Government Bonds Ownership	Strong	22.91%
Banks' Government Bonds Ownership	Weak	22.43%
Non-Banks' Government Bonds Ownership	Strong	41.32%
Foreign' Government Bonds Ownership	Weak	13.34%
Bonds Inflow 12M (USD, Million)	Weak	208
Bond Spreads		
IDR 10Y - IDR 2Y Bond Yield	Wide Spread	1.09%
IDR 10Y - UST 10Y	Narrow Spread	2.05%
Stock Valuation		
JCI P/E	Expensive	16.05x
JCI Earnings Yield	Expensive	4.60%
LQ45 Earnings Yield	Cheap	6.94%
IDX 20 High Dividend, Dividends Yield	Cheap	7.39%
IDR 10Y - JCI Earnings Yield	Narrow Spread	1.58%
MSCI Indonesia Earnings Yield	Expensive	6.20%
Stock Inflow 12M (USD, Million)	Weak	-2,057
Banking Sector		
Loan Growth (Y/Y)	Weak	7.00%
Loan to Deposit Ratio	High	86.40%
Net Interest Margins	Neutral	4.48%
Return on Asset	High	2.03%
Non-Performing Loan	Good	2.22%

Source: Simpan Asset Management, Bloomberg. Data as of 11 December 2025

These materials have been prepared by Simpan Asset Management (including any of its affiliates "Simpan") for Simpan's client or potential client to whom such materials are directly addressed and delivered in connection with an actual or potential mandate or engagement and may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with Simpan. These materials are based on information provided by potential transaction participants, from public sources or otherwise reviewed by Simpan. Information herein also does not constitute professional advice or recommendations regarding any securities or investments. No investment decisions should be based on the information herein. Nothing in this document constitutes accounting, legal, regulatory, tax or other advice. Although the information herein has been obtained from sources that Simpan believes to be reliable, no representation or warranty (express or implied) is made as to the accuracy, completeness, reliability or fairness of the information, opinions or projections herein, all of which are subject to change without notice. This document is for the internal use of the recipient only. These materials were designed for use by specific persons familiar with the business and affairs of the Company and are being furnished and should be considered only in connection with other information, oral or written, being provided by Simpan in connection herewith. These materials are not intended to provide the sole basis for evaluating, and should not be considered a recommendation with respect to, any transaction or other matter. Simpan does not provide tax advice. Accordingly, any statements contained herein as to tax matters were neither written nor intended by Simpan to be used and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on such taxpayer. Accordingly, any taxpayer should seek advice based on such taxpayer's particular circumstances from an independent tax advisor. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by Simpan to provide or arrange any financing for any transaction or to purchase any security in connection therewith. Simpan assumes no obligation to update or otherwise revise these materials. These materials have not been prepared with a view toward public disclosure under state or federal securities laws or otherwise, and may not be reproduced, disseminated, quoted, summarized or referred to, in whole or in part, without the prior written consent of Simpan. These materials may not reflect information known to other professionals in other business areas of Simpan.

© Copyright 2025 Simpan Asset Management. All rights reserved. All copyrights subsisting and arising out of these materials belong to Simpan and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without prior written consent of Simpan.