KIWOOM SEKURITAS INDONESIA

MSCI Impact on IDX

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1. Impact of the MSCI announcement on Indonesia's equity market, foreign investor interest, and buy-on-weakness opportunities

With foreign outflows in the regular market reaching IDR 1.65 trillion on Tuesday and year-to-date foreign flows turning into a net sell of IDR 188.23 billion, it is reasonable to conclude that some foreign investors, particularly active global funds, have already begun de-risking. This is not panic selling, but rather a pre-emptive adjustment to reduce exposure ahead of a confirmed MSCI stance that could trigger larger passive outflows. As such, front-running activity has already started, although not yet at the scale of forced selling.

The long-term impact of the MSCI announcement is structural, not merely short-term sentiment driven. MSCI's interim freeze policy removes near-term upside from index rebalancing, including increases in the Foreign Inclusion Factor, size migration from Small to Standard, and potential inclusion of new stocks. As a result, Indonesia loses a key structural catalyst that typically supports big-cap valuations. Until issues surrounding ownership transparency and concentration are addressed, Indonesia is likely to be perceived as a market with a higher risk premium rather than one undergoing an upgrade cycle.

The impact on foreign investor appetite is clearly negative, particularly for passive and benchmark-driven funds. Passive MSCI-linked inflows are effectively put on hold, while active funds are likely to become more selective and remain underweight Indonesia until credible regulatory improvements emerge. The bigger risk lies not only in the freeze itself, but in the potential downgrade to Frontier Market status, which could trigger forced selling from funds restricted to Emerging Markets. Consequently, MSCI sentiment is directly suppressing foreign appetite and is not a temporary issue.

Regarding buy-on-weakness, the approach must be highly selective.
In principle, buy-on-weakness is only relevant for big-cap stocks with relatively clean free float structures, transparent ownership, high liquidity, and defensive or highly visible earnings fundamentals. For the broader market, this is not yet an aggressive buying phase, but rather a gradual inventory-building phase. As long as JCI remains vulnerable to further consolidation toward the 8,050 – 8,000 range, the most rational approach is wait and see rather than attempting to catch a falling knife. While big-cap valuations may start to look attractive, timing remains critical given the lack of stability in foreign flows.

2. How far could the new MSCI policy sentiment pressure JCI going forward?

The sharp sell-off following the MSCI announcement triggered the first trading halt of 2026, as JCI fell more than 8% at the start of the second session, reflecting a sudden spike in volatility and extreme de-risking within a short period. This event underscores that the market has interpreted the MSCI development as a structural risk rather than a routine technical correction.

In the short term, over the next 1–4 weeks, MSCI-related sentiment is likely to remain the main market overhang. This stems from the removal of the February 2026 rebalancing catalyst, heightened volatility due to foreign portfolio rotation, and weakening confidence in Indonesia's market structure.

From a technical perspective, the pressure is strong enough to push JCI into a prolonged consolidation phase, with the 8,050 – 8,000 zone acting as a key psychological and technical support area. In the absence of concrete and credible regulatory responses from the Indonesia Stock Exchange and the Financial Services Authority regarding ownership transparency, any relief rally is likely to be fragile and quickly sold into.

Over the medium term, market direction will be driven more by policy responses than by narrative. If regulators are able to enhance ownership data granularity, reduce concentration risks and coordinated trading concerns, and reassure MSCI before May 2026, pressure could ease and risk premiums may begin to decline. Conversely, if these issues persist, JCI risks underperforming regional peers despite relatively stable domestic macroeconomic conditions.

📌 KIWOOM RESEARCH OPINION

- Foreign investors have begun front-running through gradual outflows.
- The MSCI impact is structural and negative, not merely a short-term shock.
- Passive foreign funds remain on hold, while active funds tend to stay underweight.
- Buy-on-weakness opportunities are selective rather than broad-based.
- Elevated volatility remains reasonable, with potential JCI consolidation toward 8,050 – 8,000.

📝 **ADVISE: HOLD;** WAIT & SEE, while monitoring regulatory responses and flow stabilization.

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