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MACRO & STRATEGY NOTE

Indonesia's MSCI Overhang Persists: Reform Execution Now Takes Center Stage

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SECTION 01

Latest MSCI Announcement on the August Review

For the August 2026 review, MSCI decided to maintain several restrictions on Indonesian equities, namely:

No.	MSCI Decision — August 2026 Review
1	Freezing all increases in Foreign Inclusion Factor (FIF).
2	Freezing increases in Number of Shares (NOS).
3	Not adding Indonesian stocks to the MSCI Investable Market Indexes (IMI).
4	Not applying any upward migration across size segments, including from MSCI Small Cap to MSCI Standard Index.
5	Continuing to remove stocks identified under the High Shareholding Concentration (HSC) framework.
6	Starting to use the 1% shareholder disclosure data to adjust free float estimates when necessary.
7	Providing further information regarding the treatment of the Indonesian market before the November 2026 review.

SECTION 02

What Does It Mean?

In simple terms, this decision means *MSCI has not yet normalized its treatment of Indonesian equities in the August review.* Indonesia remains in a “frozen” status for several important aspects that usually affect stock weights in the index.

- *The freeze on FIF increases* means that if an Indonesian stock was supposed to receive a higher foreign free float factor, that increase will not be reflected yet. As a result, the potential increase in that stock's MSCI index weight will remain capped.
- *The freeze on NOS increases* means that if there are changes in the number of shares that would normally increase a stock's index weight, those changes will also not be implemented yet. Therefore, the positive impact from share-count adjustments on index weight remains delayed.
- *No Indonesian additions to MSCI IMI* means the Indonesian stock universe in MSCI indices will not be expanded in the August review. Stocks that may otherwise meet the criteria for inclusion will still not be added.

- *No upward migration across size segments* means Indonesian stocks that potentially qualify for an upgrade, for example from MSCI Small Cap to MSCI Standard Index, will not be upgraded yet. This matters because stocks included in the Standard Index usually attract greater attention from global institutional investors and passive funds.
- *The continued removal of HSC stocks* means MSCI still views high ownership concentration as an investability issue. In other words, stocks whose free float is considered not sufficiently real, or too concentrated, will not be retained in the index.
- *The use of 1% shareholder disclosure data* to adjust free float estimates means MSCI will not rely solely on formal free float figures, but will look deeper into the ownership structure. If the data shows concentrated ownership, the estimated free float can be adjusted downward.
- *Further information before the November review* means the August decision is not final for Indonesia's market status. MSCI is still giving time to assess whether market reforms are truly being implemented and whether the results are concrete enough before deciding the next treatment, including the possibility of consultation on a potential move to Frontier Market.

SECTION 03

Risk of Downgrade to Frontier Market in November

Regarding the risk of Indonesia being downgraded to Frontier Market in November 2026, we believe the risk has declined compared with the position before the June decision, but it has not disappeared.

Our base case is that Indonesia still has a chance to maintain its Emerging Market status. However, MSCI may continue to impose close monitoring or special treatment if implementation progress is not strong enough.

The biggest risk is not the lack of new regulations, but whether those regulations can truly change market behavior:

- Whether free float becomes more real.
- Whether stocks with high ownership concentration are handled firmly.
- Whether unnatural transactions can be reduced.
- Whether ownership data can be trusted by global investors.
- Whether reforms are visible in actual market activity, not only in policy documents.

SECTION 04

Impact of MSCI's Decision on the Market

In the short term:

- MSCI-related sentiment remains negative, but this is not a new shock, as the market had already expected MSCI not to immediately normalize Indonesia's treatment in the August review.
- The fact that JCI still strengthened after the announcement can be read as a “not worse than expected” reaction, not as a sign that the MSCI issue is over.
- The August risk is likely already quite priced in, but the November risk is not yet fully priced in.

Impact on JCI until November, or even year-end:

- The impact is more likely to cap upside rather than trigger major new selling pressure, as cheap valuation may at least encourage portfolio and fund managers to do window dressing toward year-end.

- JCI can still stage a technical rebound if supported by big caps, buybacks, dividends, or a more stable Rupiah.
- However, the room for rerating remains limited because index-based foreign investors still do not have a strong reason to increase exposure before there is clarity in November.

In short, the market is not panicking over the August review, but it will remain cautious ahead of the November review.

SECTION 05

Transaction Value and Recent Market Activity

Shrinking transaction value shows that market conviction remains low. JCI gains on low transaction value indicate that the index rebound is not yet supported by strong market participation. Local institutions or investors may be helping to support the market, or foreign / smart money may actually be quietly front-running through local accounts. So this does not necessarily mean investors have completely abandoned Indonesian equities, but many are choosing to reduce trading, hold cash, or only enter the most liquid stocks.

Some funds may be temporarily shifting to more defensive instruments such as money market funds, deposits, short- to medium-tenor government bonds, the Dollar, or gold. Within equities, investors tend to prefer liquid big caps with clearer free float, better governance, strong balance sheets, and stable cash flow and dividends.

SECTION 06

Advice for Investors and Traders

- Stay selective. Do not buy stocks only because valuations look cheap. To be honest, many stocks have already fallen sharply and returned to last year's lows, with some even back near their 2020 lows.
- A more appropriate strategy is gradual accumulation in quality and sentiment-driven stocks.
- Prioritize big caps with solid fundamentals, high liquidity, clear free float, and low HSC risk.
- Relatively safer sectors include large banks, telco, consumer staples, healthcare, and attractive dividend-yield names.
- Avoid overly speculative stocks, small free-float names, expensive valuations, or stocks with potential HSC risk.
- For traders, rebounds can still be utilized. Large-cap conglomerate-related stocks may also remain actively traded and can influence the overall movement of JCI. However, discipline is essential because the market remains headline-driven.
- Gains without strong transaction value should be treated as a fragile rebound, not the beginning of a major rerating.

SECTION 07

Advice for Regulators

The main focus heading into November is no longer simply announcing reforms, but proving execution. Regulators need to show that the new rules are truly being implemented consistently and are producing real improvements.

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Within the next one month, it would be very helpful if regulators could present before-and-after evidence of the implementation of the new rules, such as:

- Real free-float improvements in problematic stocks.
- Concrete follow-up on stocks included in the HSC list.
- Disciplinary action / investigation against issuers or parties indicated to have high ownership concentration or abnormal transactions, including those involved in coordinated trading behavior.
- Consistent and verifiable use of the 1% shareholder ownership data.
- Real improvement in disclosure, liquidity, and price discovery.

In short, MSCI and global investors need to see that since the issue first emerged, *Indonesia has not only responded with rules and statements, but has truly implemented the policies consistently and produced real evidence.*

If measurable changes can be shown before November, Indonesia's chance of maintaining Emerging Market status will become stronger. However, if the reforms remain merely administrative without real improvement in free float, liquidity, and price discovery, the MSCI overhang will continue to hold back JCI's rerating.