

US CPI jumped to 8.5% but core inflation (6.5%) was lower than expected

Stocks and bonds globally fell again during this holiday-shortened week as US inflation rate was still climbing in March for both the consumer price index (CPI) and the producer price index (PPI). The headline CPI of 8.5% YoY (+1.2% MoM) was the highest since 1981, albeit still in-line with expectations, while core CPI of 6.5% YoY (+0.3% MoM) was slightly below forecasts of 6.6%. Meanwhile, the headline US PPI came in at 11.2% YoY (+1.4% MoM), also the highest on record and it was above forecasts of 10.6%. The probability of the Fed hiking its policy rate by 50bps during its upcoming May meeting has risen to 91%, according to FactSet. High inflation and the Fed's aggressive monetary tightening plans led to 10-yr US Treasuries climbing further to 2.83% (+12bps). In addition, with US earnings season underway this week, expectations of a sharp deceleration in earnings growth was weighing down market sentiment. The estimated earnings growth rate for S&P500 is 6.3% for Q1 2022 but this growth rate will fall sharply to 0.7% if energy sector is excluded, according to Refinitiv. Elsewhere in Europe, UK's reported inflation of 7% YoY was also a 30-year high, reflecting the impact of rising fuel prices. Meanwhile, the ECB did not adopt a more hawkish stance at its policy meeting this week and indicated it would adhere to its guidance for a steady withdrawal of stimulus.

In Indonesia, JCI was still up by 0.34% this week on the back of foreign inflows (Rp3.3Tn this week; Rp50.7Tn YTD). However, the bond market sustained large outflows of Rp7.2Tn (YTD: -Rp41.3Tn) that pushed up 10-yr IDR yields to 6.9%. However, the stock market was largely driven by gains in new IPO stock GOTO and small cap stocks while most of the large-cap stocks outside of energy and telecom sectors saw corrections this week.

The Week Ahead – Indonesia Trade Balance, BI Interest Rate Decision

The key economic data to focus next week include China GDP Growth Rate (Mon 09:00), Indonesia Trade Balance (Mon 11:00), BI Interest Rate Decision (Tue 14:30), US Initial Jobless Claims (Thu 19:30), Fed Chair Powell Speech (Thu 22:00), ECB President Lagarde Speech (Fri 20:00).

Investment Conclusion

Global equities have priced-in strong growth recovery since 2021 but the key issue for markets in the past year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now (than in 2013) as Fed tightening is already expected, Indonesia's country risk indicators have improved, and its bond market is resilient. Our 2022 JCI target of 7,400 is based on consensus earnings growth forecasts of 18% for 2022 (11% for 2023) and our forward P/E target of 15x, in line with 10-yr mean P/E before the pandemic. In addition, EM stocks (including Indonesia) are attractively valued as they well underperformed DM in 2021, despite benefiting from commodity price tailwinds.

Recommendation

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45, XIIT (IDX30), XIPI (Pefindo i-Grade), and ESG ETF XISR (Sri Kehati) to minimize volatility. Both XIPI and XISR have overweight positions in BBCA, widely considered as defensive stock at times of uncertainty. XIPI also has an overweight position in cyclical stocks, including in banking and basic materials sectors, and underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from an economic recovery while still maintaining defensiveness through its overweight exposure in BBCA. We also like ETF XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen since the beginning of 2022.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,451.23	-0.78%	-5.19%
S&P 500	4,392.59	-2.13%	-7.84%
Nasdaq	13,351.08	-2.63%	-14.66%
FTSE 100	7,616.38	-0.69%	3.14%
DAX	14,163.85	-0.84%	-10.83%
Nikkei 225	27,093.19	0.40%	-5.90%
Hang Seng	21,518.08	-1.62%	-8.03%
Shanghai	3,211.25	-1.25%	-11.77%
MSCI World	2,959.67	-1.74%	-8.42%
MSCI Emerging Markets	1,112.90	-1.33%	-9.67%

JCI Sector Indices	Last	1W	YTD
Transportation	1,970.56	4.37%	23.21%
Healthcare	1,497.08	3.14%	5.42%
Technology	9,075.79	2.14%	0.90%
Industrials	1,226.03	1.62%	18.26%
Consumer Cyclical	949.44	0.84%	5.44%
Infrastructures	975.22	0.62%	1.66%
Energy	1,616.56	0.41%	41.87%
JCI	7,235.53	0.34%	9.94%
Property & Real Estate	716.95	-1.24%	-7.26%
Financials	1,584.05	-1.31%	3.75%
Consumer Non-Cyclicals	655.03	-1.42%	-1.37%
Basic Materials	1,386.55	-3.04%	12.33%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.46	-6 bps	172 bps
UST 10Y Yield	2.83	12 bps	132 bps
Ind GB 10Y Yield	6.92	13 bps	54 bps
USDIDR	14,381	19	139
CDS Indo 5Y	99.12	8.23	24.57

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	3.25Tn	50.66Tn
Government Bond Market (Rp)	-7.21Tn	-41.32Tn

Commodities	Last	1W	YTD
WTI	106.9	9.24%	38.91%
Brent	111.7	8.68%	40.82%
CPO (Malaysia)	6465.0	8.91%	0.38
Coal (New Castle)	314.0	7.68%	84.60%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,117.89	-0.85%	12.46%
XIIT	IDX30	595.43	-0.75%	12.85%
XIJI	JII	655.94	-0.58%	9.34%
XISI	SMInfra18	343.13	-0.19%	4.12%
XISR	SriKehati	424.34	-0.59%	11.67%
XIHD	IDXHIDIV20	563.37	0.13%	14.27%
XIPI	Pefindo I-Grade	200.18	-1.08%	12.32%
XIML	MSCI Indo Large Cap	276.05	-1.36%	8.29%
XIID	IDX30	578.92	-0.77%	2.16%
XIFE	FTSE ESG Indonesia	112.64	-1.20%	2.16%
XIIC	Consumer Related	1,017.80	-1.99%	4.94%
XIIF	Rate Sensitive	540.52	-1.57%	2.61%
XISC	BUMN Stocks	721.93	-0.57%	6.85%
XISB	Sovereign Bonds	439.98	-0.80%	-2.39%

Conventional	Last	1W	YTD
RDMP Equity	1,069.68	0.27%	10.75%
RPCF Balanced	3,008.40	-0.59%	5.53%
RDPO 2 Fixed Income	1,011.00	0.08%	
RDPU 2 Money Market	1,350.13	0.05%	0.97%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2022F	2022F	
1 RLQ45	26.1	48.5	10.9	13.1	1.43	15.1	3.3	1.14
2 XIIT	28.6	50.6	5.8	13.6	1.44	15.4	3.1	1.07
3 XISC	17.8	40.9	11.1	19.9	10.26	13.8	3.8	1.33
4 XISR	25.1	61.5	5.3	6.4	1.76	15.5	3.3	1.11
5 XIIF	19.6	54.1	22.7	0.0	3.58	16.9	2.9	1.29
6 XISI	48.1	20.0	16.3	14.7	0.95	14.5	3.8	1.04
7 XIPI	22.1	58.6	9.8	6.3	3.31	18.0	2.8	1.18
8 XIIC	39.0	38.4	16.0	5.0	1.75	18.4	2.7	1.09
9 XIHD	23.3	54.5	3.5	15.9	2.76	14.3	3.7	1.12
10 XIJI	44.5	0.7	27.0	26.9	0.86	15.4	3.1	1.10
11 XIML	18.4	76.3	2.5	0.0	2.82	16.4	3.3	1.11
12 XIID	28.6	50.7	5.8	13.6	1.23	15.3	3.3	1.07
13 XIFE	31.2	54.2	5.2	7.4	2.07	14.4	3.4	1.14
Index								
IDX80	30.8	39.3	14.2	15.7		14.3	3.1	
JCI	29.9	39.5	15.6	15.0		18.4	2.2	

Remarks:

*Red: Overweight to IDX80; Black: Neutral to IDX80; Green: Underweight to IDX80

Characteristic Classification :

- *Defensive : Consumer Goods, Media, Telecommunication, and Infrastructure
- *Rate Sensitive : Banks and Auto
- *Dom. Cyclical : Cement, Property, Construction, Animal Feeds, and Retail Trade
- *Commodities : Coal Mining, Metals & Oil Mining, Plantation and Misc. Industries

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