

FOMC minutes reveal rapid rate rises and balance sheet reduction plans

Global stock markets pulled back and bond yields climbed following Tuesday's speech by Fed Governor Lael Brainard, who is widely viewed as one of the most dovish policymakers, indicating the Fed may have to reduce its balance sheet quickly in its effort to tame inflation. Markets continued under pressure on Wednesday when the release of FOMC minutes from March meeting confirmed an aggressive monetary tightening plan as Fed officials noted one or more 50 basis point increases in interest rate could be appropriate at future meetings. The minutes revealed the Fed's plan to reduce its balance sheet by up to \$95 billion per month that could be announced during its May 3-4 meeting – this is higher than consensus expectation. This more hawkish than expected monetary tightening plans led to futures markets pricing the Fed funds rate rising to 2.50-2.75% range by the end of 2022, while yields on 10-yr US Treasuries climbed to 2.70% (+31 bps). Meanwhile, the US economic calendar was relatively light this week with factory orders and ISM non-manufacturing PMI data coming in line while weekly initial jobless claims of 166K turned out to be much better than expected (consensus: 200K), indicating a resilient US economy. European stocks also close lower amid a more hawkish Fed and fresh international sanctions against Russia. Within EM, Brazil and Indonesia stood out as the world's best performing stock markets so far in 2022 due to strong foreign inflows.

In Indonesia, JCI gained strongly by 1.87% as sustained foreign net inflows of Rp3.2Tn this week brought the cumulative net equity inflows to Rp47.4Tn so far in 2022. The key market drivers among large cap stocks were metals mining, automotive, coal mining and technology sectors while most stocks in banking, consumer and property & construction sectors saw corrections.

The Week Ahead – Indonesia Retail Sales, US CPI & PPI Inflation Rates

The key economic data to focus next week include Indonesia Retail Sales (Mon 10:00), US Inflation Rate (Tue 19:30), US Producers Price Index (Wed 19:30), ECB Interest Rate Decision (Wed 18:45), US Retail Sales and Initial Jobless Claims (Thu 19:30), US University of Michigan Consumer Sentiment (Thu 21:00)

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	34,721.12	-0.28%	-4.45%
S&P 500	4,488.28	-1.27%	-5.83%
Nasdaq	13,711.00	-3.86%	-12.36%
FTSE 100	7,669.56	1.75%	3.86%
DAX	14,283.67	-1.13%	-10.08%
Nikkei 225	26,985.80	-2.46%	-6.27%
Hang Seng	21,872.01	-0.76%	-6.52%
Shanghai	3,251.85	-0.94%	-10.66%
MSCI World	3,012.19	-1.47%	-6.79%
MSCI Emerging Markets	1,127.93	-1.56%	-8.45%

JCI Sector Indices	Last	1W	YTD
Energy	1,609.96	7.87%	41.29%
Basic Materials	1,430.07	6.67%	15.85%
Technology	8,885.36	4.97%	-1.21%
Industrials	1,206.52	3.72%	16.38%
Healthcare	1,451.45	3.05%	2.21%
JCI	7,210.84	1.87%	9.56%
Transportation	1,888.04	1.39%	18.05%
Consumer Non-Cyclicals	664.49	1.19%	0.05%
Infrastructures	969.23	0.16%	1.04%
Consumer Cyclicals	941.53	-0.52%	4.57%
Financials	1,605.05	-0.53%	5.12%
Property & Real Estate	725.99	-0.90%	-6.09%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.52	5 bps	178 bps
UST 10Y Yield	2.70	31 bps	119 bps
Ind GB 10Y Yield	6.79	4 bps	41 bps
USDIDR	14,362	-9	120
CDS Indo 5Y	90.89	5.86	16.34

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	3.2Tn	47.41Tn
Government Bond Market (Rp)	2.74Tn	-34.11Tn

Commodities	Last	1W	YTD
WTI	97.90	-1.53%	27.16%
Brent	102.78	-1.54%	29.58%
CPO (Malaysia)	5,921.00	6.38%	26.44%
Coal (New Castle)	291.60	12.70%	71.43%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,127.50	1.65%	13.42%
XIIT IDX30	599.91	1.53%	13.69%
XIJI JII	659.75	3.33%	9.97%
XISI SMInfra18	343.80	0.73%	4.32%
XISR SriKehati	426.86	0.13%	12.33%
XIHD IDXHIDIV20	562.63	0.88%	14.12%
XIPI Pefindo I-Grade	202.36	0.14%	13.54%
XIML MSCI Indo Large Cap	279.85	-0.78%	9.78%
XIID IDX30	583.41	1.51%	2.16%
XIFE FTSE ESG Indonesia	114.02	1.08%	2.16%
XIIC Consumer Related	1,038.45	1.04%	7.07%
XIIF Rate Sensitive	549.16	-0.92%	4.25%
XISC BUMN Stocks	726.07	0.46%	7.46%
XISB Sovereign Bonds	443.55	-0.02%	-1.60%

Conventional	Last	1W	YTD
RDMP Equity	1,066.84	2.15%	10.45%
RPCF Balanced	3,026.14	0.25%	6.15%
RDPO 2 Fixed Income	1,010.16	0.10%	
RDPU 2 Money Market	1,349.39	0.06%	0.91%

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. Cyclicals	Commodities	Cash	2022F	2022F	
1 RLQ45	25.7	48.8	11.3	12.8	1.40	15.3	3.3	1.14
2 XIIT	28.1	50.9	6.1	13.4	1.41	15.7	3.1	1.07
3 XISC	17.7	41.0	11.7	19.6	10.10	13.8	3.8	1.33
4 XISR	24.7	61.9	5.5	6.1	1.73	15.7	3.2	1.11
5 XIIF	10.3	54.2	23.0	0.0	12.51	17.2	2.8	1.29
6 XISI	47.7	20.1	17.1	14.2	0.82	14.6	3.7	1.04
7 XIPI	21.5	58.6	10.1	6.5	3.25	18.2	2.7	1.18
8 XIIC	29.6	38.1	16.3	5.1	10.84	18.7	2.7	1.09
9 XIHD	23.1	55.3	3.5	15.3	2.79	14.5	3.7	1.12
10 XIJI	44.2	0.7	28.4	25.9	0.79	15.5	3.1	1.10
11 XIIML	18.0	76.5	2.7	0.0	2.83	16.7	3.3	1.11
12 XIID	28.2	51.0	6.2	13.4	1.22	15.5	3.2	1.07
13 XIFE	31.2	54.3	5.5	7.0	2.03	14.6	3.4	1.14
Index								
IDX80	30.4	39.5	14.7	15.4		14.5	3.1	
JCI	29.5	39.8	15.9	14.8		18.3	2.4	

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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext.	2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext.	2311	0818-0262-7732
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	Ext.	2314	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	Ext.	2315	0857-9494-5058

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