

Strong US personal spending amid peaking inflation, Fed policy in-line

US stocks rebounded strongly, leading a global stock markets turnaround this week, as US consumer spending remained solid despite inflation while weaker than expected retailer earnings released in prior week were attributed more to rising costs rather than slowing sales. US personal spending grew 0.9% MoM in April (vs. 1.4% MoM in March), ahead of consensus (0.7%), indicating demand backdrop remain robust in the country. Inflation also appears to be peaking as Personal Consumption Expenditures Price Index growth in April slowed to 0.2% MoM (6.3% YoY), from growth of 0.9% MoM and 6.6% YoY, respectively, in the prior month, although it remained close to the highest level in four decades. Meanwhile, FOMC Minutes revealed that Fed officials were open to possibility of raising interest rates by a half percentage point in the next few meetings, in line with market expectations. Elsewhere in Europe, rising stock prices is also driven by growing confidence that inflation may be peaking and interest rate increases are likely to be gradual with the ECB rate lift off expected in July and the central bank exiting negative interest rates by the end of the third quarter. In the bond market, 10-year US Treasury yields also eased to 2.74% (-4 bps) in line with moderating inflation.

In Indonesia, JCI gained 1.56% this week amid the return of foreign net buying (+Rp1.91Tn), which was also seen in the local bond market (+Rp1.32Tn). Most equity sectors were up except technology and consumer non-cyclicals.

The Week Ahead – Indonesia Inflation, US Jobs Reports

The key economic data to focus next week include China NBS Manufacturing and Non-Manufacturing PMIs (Tue 08:30), EU Inflation (Tue 16:00), China Caixin Manufacturing PMI (Wed 08:45), US ISM Manufacturing PMI (Wed 21:00), Indonesia Inflation Rate (Thu 11:00), US ADP Employment Change (Thu 19:15), US Initial Jobless Claims (Thu 19:30), US Non Farm Payrolls and Unemployment Rate (Fri 19:30), US ISM Non-Manufacturing PMI (Fri 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. We raised our 2022 JCI target to 7,800 (from 7,400) as we believe consensus earnings growth forecasts of 18% for 2022 is likely to be exceeded given much stronger than expected Q1 2022 earnings results. Our JCI target is based 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 equities 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 XIIML (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	33,213.96	6.24%	-8.60%
S&P 500	4,158.24	6.58%	-12.76%
Nasdaq	12,131.13	6.84%	-22.46%
FTSE 100	7,595.46	2.78%	2.86%
DAX	14,462.19	3.44%	-8.96%
Nikkei 225	26,781.68	0.16%	-6.98%
Hang Seng	20,697.36	-0.10%	-11.54%
Shanghai	3,130.24	-0.52%	-14.00%
MSCI World	2,802.59	5.52%	-13.28%
MSCI Emerging Markets	1,043.17	0.76%	-15.33%

JCI Sector Indices	Last	1W	YTD
Transportation	2,224.11	11.29%	39.06%
Energy	1,705.80	3.28%	49.70%
Basic Materials	1,363.32	1.59%	10.45%
JCI	7,026.26	1.56%	6.76%
Healthcare	1,512.86	1.44%	6.53%
Infrastructures	931.87	1.02%	-2.86%
Consumer Cyclical	921.93	0.97%	2.39%
Industrials	1,267.93	0.81%	22.31%
Financials	1,508.12	0.75%	-1.23%
Property & Real Estate	710.57	0.71%	-8.08%
Consumer Non-Cyclicals	692.73	-0.66%	4.31%
Technology	7,732.87	-1.69%	-14.03%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.48	-10 bps	175 bps
UST 10Y Yield	2.74	-4 bps	123 bps
Ind GB 10Y Yield	7.09	-19 bps	71 bps
USDIDR	14,577	-65	335
CDS Indo 5Y	103.38	-24.67	28.83

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.91Tn	+55.84Tn
Government Bond Market (Rp)	+1.32Tn	-102.21Tn

Commodities	Last	1W	YTD
WTI	113.64	3.05%	47.60%
Brent	117.26	4.18%	47.83%
CPO (Malaysia)	6,353.00	3.99%	35.66%
Coal (New Castle)	403.00	-3.42%	136.92%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,120.43	1.75%	12.71%
XIIT	IDX30	597.59	1.87%	13.25%
XIJI	JII	655.38	0.66%	9.25%
XISI	SMInfra18	346.77	2.61%	5.23%
XISR	SriKehati	435.35	2.03%	14.57%
XIHD	IDXHIDIV20	577.31	1.60%	17.10%
XIPI	Pefindo I-Grade	199.14	2.85%	11.73%
XIIML	MSCI Indo Large Cap	274.22	2.03%	7.57%
XIID	IDX30	579.70	1.83%	2.16%
XIFE	FTSE ESG Indonesia	111.61	1.23%	2.16%
XIIC	Consumer Related	1,006.31	1.38%	3.76%
XIIF	Rate Sensitive	534.15	1.90%	1.40%
XISC	BUMN Stocks	742.86	3.43%	9.95%
XISB	Sovereign Bonds	435.55	0.75%	-3.37%

Conventional				
RDMP	Equity	996.14	1.97%	3.13%
RPCF	Balanced	2,845.01	1.43%	-0.20%
RDPO 2	Fixed Income	1,010.74	0.44%	
RDPU 2	Money Market	1,355.89	0.08%	1.40%

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	25.2	50.3	11.0	12.9	0.57	14.7	3.4	1.14
2 XIIT	27.6	52.6	5.9	13.4	0.48	15.1	3.3	1.07
3 XISC	19.4	39.1	11.2	19.7	10.68	13.0	4.1	1.33
4 XISR	25.1	62.3	5.5	6.3	0.80	15.3	3.4	1.11
5 XIIF	10.1	55.5	23.2	0.0	11.23	16.8	3.1	1.29
6 XISI	46.8	20.5	17.1	15.2	0.45	14.0	4.0	1.04
7 XIPI	21.1	61.3	10.2	6.8	0.59	18.0	2.9	1.18
8 XIIC	30.1	39.6	16.3	4.0	10.00	18.0	2.9	1.09
9 XIHD	23.1	56.0	3.5	16.2	1.17	13.7	3.9	1.12
10 XIJI	44.1	0.7	26.9	26.9	1.36	14.5	3.2	1.10
11 XIIML	18.4	77.5	2.5	0.0	1.53	16.2	3.5	1.11
12 XIID	27.6	52.6	5.9	13.4	0.50	15.0	3.4	1.07
13 XIFE	29.8	56.2	5.5	8.0	0.41	14.3	3.5	1.14
Index								
IDX80	30.0	40.3	14.2	15.5		13.4	3.2	
JCI	29.4	39.6	15.8	15.3		17.3	2.3	

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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