

Global stocks fell sharply on rising US inflation, EM outperform DM stocks

US stock indexes fell by around 5% following releases of higher-than-expected US CPI inflation and initial jobless claims data. This led to a global stock market correction that impacted DM stocks the most (MSCI World Index: -4.94%) while EM equities were more resilient (MSCI EM Index: -0.58%), albeit this was largely driven by strong gains of China stock markets. Surging energy and food prices were key drivers of US inflation rising to 8.6% YoY (+1% MoM) in May, above consensus expectations of 8.3% and 0.7%, respectively. Excluding energy and food, core inflation rose 0.6% MoM, the same rate as in prior month, albeit still above consensus (0.5%). The US weekly initial jobless claims of 229K (previous: 202K) was also higher than expected while University of Michigan's consumer sentiment survey revealed a weakening of consumer confidence. With inflation continuing to run hot, the Fed is widely expected to approve an interest-rate increase of at least half a percentage point at its next Wednesday's (15th June) policy meeting - this would be the second half-point increases in a row - while the probability of a rate hike of 75bps, while smaller, has also risen. Meanwhile, the ECB has signaled it plans to start raising its key deposit rate by 25bps in July, from -0.5% at present, with a higher rate hike a possibility at its September meeting if medium-term inflation outlook persists or deteriorates. The higher inflation data also lifts up 10-yr US Treasury yields to 3.17% (+22bps) this week.

In Indonesia, JCI corrected 1.34% amid sustained foreign inflows in both equity and bond markets of Rp0.48Tn and Rp5.03Tn, respectively. Nearly all of the JCI sector indexes corrected this week except for the healthcare sector.

The Week Ahead – Indonesia Trade, Fed Rate Decision, FOMC Projections

The key economic data to focus next week are Fed Brainard Speech (Tue 01:00), US PPI Inflation (Tue 19:30), Indonesia Trade Balance (Wed 11:00), US Retail Sales (Wed 19:30), Fed Interest Rate Decision & FOMC Economic Projections (Thu 01:00), US Jobless Claims (Thu 19:30), Fed Chair Powell Speech (Fri 19:45).

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) due to upgraded consensus earnings growth forecasts to 28% for 2022 (from 18%) due to stronger than expected Q1 earnings results. Our JCI target is based on 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 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	31,392.79	-4.58%	-13.61%
S&P 500	3,900.86	-5.05%	-18.16%
Nasdaq	11,340.02	-5.60%	-27.52%
FTSE 100	7,317.52	-2.86%	-0.91%
DAX	13,761.83	-4.83%	-13.37%
Nikkei 225	27,824.29	0.23%	-3.36%
Hang Seng	21,806.18	3.43%	-6.80%
Shanghai	3,284.83	2.80%	-9.75%
MSCI World	2,641.69	-4.94%	-18.26%
MSCI Emerging Markets	1,054.64	-0.58%	-14.40%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,466.45	0.14%	3.27%
Energy	1,756.93	-0.14%	54.18%
Infrastructures	957.23	-0.39%	-0.21%
Industrials	1,296.57	-0.81%	25.07%
Technology	7,988.65	-1.24%	-11.18%
Property & Real Estate	703.63	-1.34%	-8.98%
JCI	7,086.65	-1.34%	7.68%
Consumer Non-Cyclicals	695.77	-1.70%	4.76%
Consumer Cyclicals	911.94	-1.87%	1.28%
Financials	1,488.54	-2.03%	-2.51%
Basic Materials	1,329.74	-3.24%	7.72%
Transportations	2,161.36	-8.14%	35.14%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.07	41 bps	233 bps
UST 10Y Yield	3.17	22 bps	165 bps
Ind GB 10Y Yield	7.22	28 bps	84 bps
USDIDR	14,565	133	323
CDS Indo 5Y	119.61	14.32	45.06

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.48Tn	+58.90Tn
Government Bond Market (Rp)	+5.03Tn	-84.56Tn

Commodities	Last	1W	YTD
WTI	120.47	0.17%	56.47%
Brent	122.01	1.91%	53.82%
CPO (Malaysia)	5,920.00	-8.26%	26.41%
Coal (New Castle)	392.35	-4.88%	130.66%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,104.43	-2.55%	11.10%
XIIT	IDX30	587.79	-2.65%	11.40%
XIJI	JII	659.52	-1.90%	9.94%
XISI	SMInfra18	349.57	-1.00%	6.07%
XISR	SriKehati	427.43	-2.44%	12.48%
XIHD	IDXHIDIV20	571.23	-2.72%	15.87%
XIPI	Pefindo I-Grade	194.68	-2.60%	9.23%
XIML	MSCI Indo Large Cap	266.69	-3.10%	4.62%
XIID	IDX30	570.99	-2.47%	10.92%
XIFE	FTSE ESG Indonesia	109.52	-2.68%	7.28%
XIIC	Consumer Related	999.92	-1.93%	3.10%
XIIF	Rate Sensitive	531.16	-2.09%	0.83%
XISC	BUMN Stocks	736.35	-2.38%	8.98%
XISB	Sovereign Bonds	435.07	-0.80%	-3.48%

Conventional	Last	1W	YTD
RDMP Equity	984.15	-2.11%	1.89%
RPCF Balanced	2,840.12	-1.10%	-0.38%
RDPO 2 Fixed Income	1,021.05	0.44%	-
RDPU 2 Money Market	1,357.62	0.07%	1.53%

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	22.8	45.8	10.2	12.0	9.23	14.3	3.5	1.14
2 XIIT	24.4	46.9	5.3	12.2	11.21	14.4	3.4	1.07
3 XISC	18.7	37.8	11.5	18.6	13.39	12.5	4.3	1.33
4 XISR	24.8	61.5	5.6	6.6	1.52	14.7	3.6	1.11
5 XIIF	10.0	54.6	22.7	0.0	12.67	18.3	3.2	1.29
6 XISI	45.3	19.8	17.2	15.9	1.80	13.5	4.2	1.04
7 XIPI	20.4	61.2	10.5	6.6	1.24	17.7	3.0	1.18
8 XIIC	29.9	38.4	16.3	3.8	11.66	21.9	3.0	1.09
9 XIHD	22.6	55.1	3.1	16.5	2.70	13.2	4.0	1.12
10 XIJI	42.6	0.7	26.6	27.2	2.90	14.2	3.2	1.10
11 XIIML	18.0	77.3	2.6	0.0	2.07	15.5	3.6	1.11
12 XIID	24.5	46.9	5.3	12.3	11.07	14.4	3.5	1.07
13 XIFE	29.4	55.6	5.6	8.2	1.13	13.9	3.6	1.14
Index								
IDX80	38.2	35.4	12.7	13.6		12.3	3.2	
JCI	36.7	35.0	14.3	14.1		16.4	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

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

DISCLAIMER

© Copyright 2022 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE