

The Fed commitment to tame inflation, falling oil prices & strong new home sales in May

US equity markets rebounded strongly last week (+6.45%) in a holiday-shortened trading week following Jerome Powell's testimony and mixed economic data. Nearly all sectors in index were showing strong gains except energy as crude oil continued to decrease its price to US\$ 107 per barrel amid fears over rising inflation and rate hike that could cause recession. This rebound has driven DM performance up 5.38%. Moreover, Fed Chairman Jerome Powell confidently stated that they are strongly committed to tame inflation by using monetary policy tools, while he also acknowledged there is possibility recession could happen. Economic data were mixed as US Existing Home Sales in May declined to the lowest level since June 2020, although came align with the consensus of 5.4Mn units. US Initial Jobless Claims ended in the week 18th June also decreased to 229k, slightly below the forecast of 227k. Meanwhile, US New Home sales rose 10.7% MoM in May, well above the forecast of -1%. Moreover, UST 10-yr yields eased to 3.14% (-9bps). Additionally, CPO price declined approximately 14.5% this week as Indonesia announced acceleration scheme of CPO shipment as well as reducing its maximum export tax rate and levy.

In Indonesia, JCI gained 1.53% despite foreign outflows (-Rp1.84Tn). Consumer, infrastructures, and technology were the sectors that gained the most. In the local bond market, 10-yr IDR yields also eased to 7.38% (-9bps).

The Week Ahead – US GDP Growth Rate & PCE Price Index, Indonesia Inflation

The key economic data to focus next week include US Durable Goods Orders (Mon 19:30), US GDP Growth Rate (Wed 19:30), US Initial Jobless Claims (Thu 19:30), US PCE Price Index (Thu 19:30), US Personal Income & Spending (Thu 19:30) Indonesia Inflation Rates (Fri 11:00), EU Inflation Rates (Fri 16:00), US ISM 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) 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 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	31,500.68	5.39%	-13.31%
S&P 500	3,911.74	6.45%	-17.93%
Nasdaq	11,607.62	7.49%	-25.81%
FTSE 100	7,208.81	2.74%	-2.38%
DAX	13,118.13	-0.06%	-17.42%
Nikkei 225	26,491.97	2.04%	-7.99%
Hang Seng	21,719.06	3.06%	-7.17%
Shanghai	3,349.75	0.99%	-7.97%
MSCI World	2,619.48	5.38%	-18.94%
MSCI Emerging Markets	1,011.18	0.65%	-17.92%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	723.56	5.74%	8.95%
Infrastructures	969.40	3.29%	1.06%
Consumer Cyclical	899.88	1.64%	-0.06%
JCI	7,042.94	1.53%	7.01%
Technology	7,838.53	1.50%	-12.85%
Basic Materials	1,289.15	0.48%	4.44%
Healthcare	1,498.44	0.24%	5.52%
Industrials	1,227.06	0.02%	18.36%
Financials	1,467.85	-0.04%	-3.86%
Energy	1,669.40	-0.22%	46.50%
Property & Real Estate	688.04	-0.45%	-11.00%
Transportation	1,987.51	-3.59%	24.27%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.06	-11 bps	233 bps
UST 10Y Yield	3.14	-9 bps	163 bps
Ind_GB 10Y Yield	7.38	-9 bps	100 bps
USDIDR	14,830	-9.35	587.5
CDS Indo 5Y	127.82	-4.89	53.27

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.84Tn	+55.03Tn
Government Bond Market (Rp)	-6.83Tn	-104.64Tn

Commodities	Last	1W	YTD
WTI	107.06	-3.10%	39.06%
Brent	113.19	0.06%	42.70%
CPO (Malaysia)	4,664.00	-14.48%	-0.41%
Coal (New Castle)	397.00	1.96%	133.39%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,099.52	1.90%	10.61%
XIIT IDX30	586.38	1.93%	11.13%
XIJI JII	652.65	2.39%	8.79%
XISI SMInfra18	351.04	2.20%	6.52%
XISR SriKehati	427.26	0.51%	12.44%
XIHD IDXHIDIV20	569.03	1.22%	15.42%
XIPI Pefindo I-Grade	193.57	0.55%	8.61%
XIML MSCI Indo Large Cap	268.58	-0.07%	5.36%
XIID IDX30	571.22	2.22%	10.97%
XIFE FTSE ESG Indonesia	110.15	1.23%	7.90%
XIIC Consumer Related	1,010.35	2.38%	4.17%
XIIF Rate Sensitive	526.41	0.21%	-0.07%
XISC BUMN Stocks	727.15	0.55%	7.62%
XISB Sovereign Bonds	435.56	1.14%	-3.37%

Conventional	Last	1W	YTD
RDMP Equity	941.52	0.25%	-2.52%
RPCF Balanced	2,728.53	-0.03%	-4.29%
RDPO 2 Fixed Income	1,023.01	0.10%	
RDPU 2 Money Market	1,359.54	0.07%	1.67%

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	21.7	42.9	9.4	9.9	16.17	13.8	3.6	1.14
2 XIIT	23.9	45.8	5.0	10.5	14.80	14.2	3.4	1.07
3 XISC	19.5	38.2	11.5	17.7	13.14	12.3	4.2	1.33
4 XISR	25.3	61.7	5.5	6.0	1.50	14.7	3.5	1.11
5 XIIF	10.2	55.4	22.4	0.0	12.02	18.6	3.2	1.29
6 XISI	46.5	19.9	17.0	14.7	1.81	13.3	4.1	1.04
7 XIPI	21.1	61.8	10.2	5.7	1.23	17.6	3.0	1.18
8 XIIC	30.2	38.9	16.2	3.2	11.50	22.6	3.0	1.09
9 XIHD	23.2	56.0	3.0	15.2	2.71	12.8	4.1	1.12
10 XIJI	44.4	0.7	26.7	25.3	2.98	13.5	3.4	1.10
11 XIIML	18.1	77.3	2.6	0.0	2.02	15.7	3.6	1.11
12 XIID	24.1	45.7	5.0	10.4	14.73	14.2	3.5	1.07
13 XIFE	29.8	56.1	5.6	7.4	1.11	13.8	3.6	1.14
Index								
IDX80	39.5	35.4	12.9	12.3		14.4	3.0	
JCI	37.6	34.9	14.4	13.1		15.8	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