

Growing US recession anxiety amid strong jobs growth (for now)

US stocks pull back from the prior week's strong gains amid growing recession fears led to DM equities' underperformance vs. EM (-0.84% vs. +1.68%) during the week. Warning from Jamie Dimon (JPMorgan Chase) and Elon Musk (Tesla) on impacts of rising interest rates and commodity prices on global economy may have unsettled markets despite relatively positive economic data released during the week. US Non Farm Payrolls grew 390,000 in May, above consensus expectations of 325,000, although private-sector jobs growth, as shown by ADP Employment Change survey, was slower than expected at 128,000 vs. 300,000. The US economy is still expanding, at least for now, as shown by strong PMI data from ISM on manufacturing activities although expansions in the service sectors were slower than expected. Meanwhile, the Fed's rate hike path remains uncertain as speculations grow of a possible pause in rate hikes in September meeting to allow the Fed to gauge their impact on the economy. However, Fed Vice Chair Lael Braenard stated that although financial conditions had already tightened significantly, she warned the Fed could still raise by half a percentage point in September. In the bond market, 10-yr US Treasury yields rose again to 2.94% amid rising oil prices on news that EU will ban most Russian oil imports by the end of this year. Inflation in the Eurozone region soared to a new record of 8.1% YoY in May, above consensus forecast of 7.7%.

In Indonesia, JCI gained 2.23% as foreign inflows continued in both the equity (+Rp2.58Tn) and bond markets (+Rp4.17Tn). Year-to-date, Indonesia's stock market has been well supported by large foreign inflows of Rp58.4Tn. Except for healthcare sector, which corrected, all other stock market sectors gained led by technology, energy, infrastructure and industrial sectors.

The Week Ahead – ECB Meeting, Indonesia Retail Sales, US Inflation

The key economic data to focus next week include ECB Interest Rate Decision (Thu 18:45), US Jobless Claims (Thu 19:30), Indonesia Retail Sales (Fri 10:00), US Inflation Rate (Fri 19:30) and Michigan Consumer Sentiment (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 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	32,899.70	-0.95%	-9.46%
S&P 500	4,108.54	-1.20%	-13.80%
Nasdaq	12,012.73	-0.98%	-23.22%
FTSE 100	7,532.95	-0.82%	2.01%
DAX	14,460.09	-0.01%	-8.97%
Nikkei 225	27,761.57	3.66%	-3.58%
Hang Seng	21,082.13	1.86%	-9.90%
Shanghai	3,195.46	2.08%	-12.21%
MSCI World	2,779.06	-0.84%	-14.01%
MSCI Emerging Markets	1,060.74	1.68%	-13.90%

JCI Sector Indices	Last	1W	YTD
Transportation	2,352.94	5.79%	47.12%
Technology	8,088.56	4.60%	-10.07%
Energy	1,759.40	3.14%	54.40%
Infrastructures	961.01	3.13%	0.18%
Industrials	1,307.20	3.10%	26.09%
JCI	7,182.96	2.23%	9.14%
Consumer Non-Cyclicals	707.84	2.18%	6.58%
Consumer Cyclicals	929.36	0.81%	3.21%
Basic Materials	1,374.19	0.80%	11.33%
Financials	1,519.39	0.75%	-0.49%
Property & Real Estate	713.16	0.36%	-7.75%
Healthcare	1,464.41	-3.20%	3.12%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.66	17 bps	192 bps
UST 10Y Yield	2.94	20 bps	143 bps
Ind GB 10Y Yield	6.94	-15 bps	56 bps
USDIDR	14,433	-145	191
CDS Indo 5Y	105.29	1.91	30.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.58Tn	+58.42Tn
Government Bond Market (Rp)	+4.17Tn	-94.32Tn

Commodities	Last	1W	YTD
WTI	120.26	5.83%	56.20%
Brent	119.72	2.10%	50.93%
CPO (Malaysia)	6,453.00	1.57%	37.80%
Coal (New Castle)	412.50	2.36%	142.50%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,133.35	1.15%	14.01%
XIIT	IDX30	603.78	1.04%	14.43%
XIJI	JII	672.30	2.58%	12.07%
XISI	SMInfra18	353.09	1.82%	7.14%
XISR	SriKehati	438.14	0.64%	15.30%
XIHD	IDXHIDIV20	587.18	1.71%	19.10%
XIPI	Pefindo I-Grade	199.87	0.37%	12.14%
XIML	MSCI Indo Large Cap	275.23	0.37%	7.97%
XIID	IDX30	585.48	1.00%	2.16%
XIFE	FTSE ESG Indonesia	112.53	0.83%	2.16%
XIIC	Consumer Related	1,019.60	1.32%	5.13%
XIIF	Rate Sensitive	542.50	1.56%	2.98%
XISC	BUMN Stocks	754.27	1.54%	11.64%
XISB	Sovereign Bonds	438.59	0.70%	-2.70%

Conventional	Last	1W	YTD	
RDMP	Equity	1,005.39	0.93%	4.09%
RPCF	Balanced	2,871.73	0.94%	0.73%
RDPO 2	Fixed Income	1,016.62	0.58%	-
RDPU 2	Money Market	1,356.72	0.06%	1.46%

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	15.0	3.2	1.07
3 XISC	19.4	39.1	11.2	19.7	10.68	13.0	4.0	1.33
4 XISR	25.1	62.3	5.5	6.3	0.80	15.2	3.4	1.11
5 XIIF	10.1	55.5	23.2	0.0	11.23	16.8	3.0	1.29
6 XISI	46.8	20.5	17.1	15.2	0.45	13.9	4.0	1.04
7 XIPI	21.1	61.3	10.2	6.8	0.59	18.3	2.8	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	13.6	3.8	1.12
10 XIJI	44.1	0.7	26.9	26.9	1.36	14.6	3.1	1.10
11 XIML	18.4	77.5	2.5	0.0	1.53	16.1	3.4	1.11
12 XIID	27.6	52.6	5.9	13.4	0.50	14.9	3.3	1.07
13 XIFE	29.8	56.2	5.5	8.0	0.41	14.4	3.4	1.14
Index								
IDX80	29.9	40.1	14.4	15.6		12.8	3.1	
JCI	29.3	39.2	15.9	15.5		16.8	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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