

**Signs of fading inflationary pressures as commodity prices are retreating.**

Stocks globally across developed and emerging markets rebounded this week as signs of fading inflationary pressures have led to a turnaround in investor sentiment. Commodity prices have declined sharply in recent weeks such as for oil, metals and agriculture commodities, including wheat, corn, and soybeans, in anticipation of a UN-supported deal that will allow resumption of Ukraine grain exports through the Black Sea apart from demand concerns arising from slower global growth. In turn, this is also reflected in 10-year US Treasury yields which fell to 2.75% on Friday, from 3.04% in the middle of the week, well below recent high of 3.48% in mid June. In addition, US earnings season indicated corporate revenues and profits are resilient despite slowing US economy. According to Refinitiv, of the 106 companies in S&P500 that have reported Q2 earnings until this week, 75% of them reported above analyst expectations, including those reporting stronger than expected revenues. Meanwhile, US initial jobless claims increased for the third week in a row to 251,000, which was above consensus expectations of 240,000, reflecting a slowing US economy. Elsewhere in Europe, the ECB raised interest rates by a half-percentage point on Thursday, which was the central bank's first rate hike since 2011. The US Fed is also widely expected to approve another big interest-rate increase during its meeting next week.

In Indonesia, JCI also rebounded (+3.53%) amid diminishing foreign investor outflows although outflows from the bond market have accelerated to Rp9.9Tn. All equity sector indices rebounded this week except for the healthcare sector.

**The Week Ahead – Fed Rate Decision, Q2 GDP Growth Rate for US & EU**

The key economic data to focus next week include US New Home Sales (Tue 21:00), US Durable Goods Orders (Wed 19:30), US Fed Interest Rate Decision (Thu 01:00), US GDP Growth Rate & Jobless Claims (Thu 19:30), EU GDP Growth Rate (Fri 16:00), US Personal Income & Spending, PCE Price Index (Fri 19:30), China NBS Manufacturing & Non Manufacturing PMI (Sun 08:30).

**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	31,899.29	1.95%	-12.22%
S&P 500	3,961.63	2.55%	-16.88%
Nasdaq	11,834.11	3.33%	-24.36%
FTSE 100	7,276.37	1.64%	-1.46%
DAX	13,253.68	3.02%	-16.56%
Nikkei 225	27,914.66	4.20%	-3.05%
Hang Seng	20,574.63	1.36%	-12.07%
Shanghai	3,269.97	1.30%	-10.16%
MSCI World	2,650.82	3.20%	-17.98%
MSCI Emerging Markets	990.37	2.97%	-19.61%

JCI Sector Indices	Last	1W	YTD
Energy	1,724.72	6.05%	51.36%
Technology	8,080.04	5.82%	-10.17%
Basic Materials	1,280.78	5.40%	3.76%
Financials	1,473.08	4.64%	-3.52%
<b>JCI</b>	<b>6,886.96</b>	<b>3.53%</b>	<b>4.64%</b>
Transportation	1,993.71	3.35%	24.65%
Consumer Non-Cyclicals	723.56	3.01%	8.95%
Industrials	1,214.23	2.90%	17.13%
Property & Real Estate	676.73	2.78%	-12.46%
Consumer Cyclicals	887.42	2.51%	-1.44%
Infrastructures	975.64	2.42%	1.71%
Healthcare	1,521.78	-0.27%	7.16%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.97	-15 bps	224 bps
UST 10Y Yield	2.75	-16 bps	124 bps
Ind_GB 10Y Yield	7.49	10 bps	111 bps
USDIDR	14,978	-15	736
CDS Indo 5Y	137.24	-24.77	62.69

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.06Tn	+47.51Tn
Government Bond Market (Rp)	-9.91Tn	-138.96Tn

Commodities	Last	1W	YTD
WTI	95.09	-2.56%	23.51%
Brent	103.20	2.02%	30.11%
CPO (Malaysia)	3,704.00	2.07%	-20.91%
Coal (New Castle)	409.20	0.65%	140.56%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,056.69	3.79%	6.30%
XIIT	IDX30	561.57	3.93%	6.43%
XIJI	JII	659.02	5.63%	9.85%
XISI	SMInfra18	350.57	3.47%	6.38%
XISR	SriKehati	414.61	4.26%	9.11%
XIHD	IDXHIDIV20	560.81	4.52%	13.75%
XIPI	Pefindo I-Grade	190.07	5.04%	6.64%
XIML	MSCI Indo Large Cap	260.30	4.29%	2.11%
XIID	IDX30	546.38	3.88%	6.14%
XIFE	FTSE ESG Indonesia	108.99	4.86%	6.76%
XIIC	Consumer Related	978.34	4.11%	0.87%
XIIF	Rate Sensitive	510.51	3.66%	-3.09%
XISC	BUMN Stocks	703.24	4.10%	4.08%
XISB	Sovereign Bonds	430.74	-0.68%	-4.44%

Conventional				
RDMP	Equity	906.97	5.14%	-6.10%
RPCF	Balanced	2,670.37	3.90%	-6.33%
RDPO 2	Fixed Income	1,027.41	0.09%	
RDPU 2	Money Market	1,363.47	0.07%	1.97%

## Summary of Investment Characteristics &amp; 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	24.1	43.8	10.6	10.4	10.99	13.2	3.7	1.14
2 XIIT	26.0	45.4	5.8	10.7	12.06	13.6	3.5	1.07
3 XISC	19.2	38.4	11.5	17.4	13.50	12.1	4.5	1.33
4 XISR	26.9	58.4	8.9	5.4	0.43	14.4	3.7	1.11
5 XIIF	10.7	55.3	22.4	0.0	11.55	17.4	3.3	1.29
6 XISI	48.7	19.2	16.6	15.0	0.43	12.9	4.2	1.04
7 XIPI	21.7	61.2	11.2	5.4	0.50	16.3	3.0	1.18
8 XIIC	32.1	37.4	16.5	3.1	10.83	21.2	3.0	1.09
9 XIHD	24.6	54.7	3.4	16.5	0.83	12.6	4.2	1.12
10 XIJI	44.4	0.7	23.8	30.3	0.81	12.7	3.4	1.10
11 XIIML	19.4	76.8	3.2	0.0	0.60	15.4	3.7	1.11
12 XIID	26.2	45.2	5.8	10.7	12.11	13.6	3.6	1.07
13 XIFE	31.8	54.5	5.8	7.5	0.47	13.2	3.7	1.14
<b>Index</b>								
IDX80	38.9	35.2	13.4	12.5		15.2	3.2	
JCI	34.9	37.1	14.7	13.3		16.2	2.5	

**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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