

US stocks fell ahead of inflation data, Friday's retail sales led to rebound

Global stocks fell ahead of US inflation data, which was released on Wednesday (CPI) and Thursday (PPI), as a high inflation and its implications on Fed's policy rate increases dominated sentiment. However, Friday's market rebound, driven by solid US retail sales, moderated the falls in DM stocks whereas EM equities corrected more sharply due to the steep declines in China and Brazil markets. US June CPI inflation data of 9.1% YoY (1.3% MoM) were hotter than expected (forecasts: 8.8% and 1.1%, respectively), as also headline PPI inflation of 1.1% MoM (consensus: 0.8%). In turn, this led to some expectations of a supersized interest rate hike of 100bps in Fed's upcoming July 26-27 meeting, after Bank of Canada's rate hike of 100bps this week, which was its biggest one-time hike since 1998. However, Friday's releases of economic data on US June retail sales (1.0% MoM) and University of Michigan's consumer sentiment were better than expected and contributed to the rebound in stock markets globally. Meanwhile, EM stocks underperformed DM equities this week (-3.77% vs. -1.34%), partly due to the drag from Chinese shares, which fell sharply on the threat of renewed Covid restrictions and lockdowns on the back of rising cases of Omicron BA.5 subvariant.

In Indonesia, JCI corrected (-1.31%) amid sustained large foreign outflows of Rp4.41Tn, which was also seen in domestic bond market (-Rp7.65Tn) although its impact on 10-yr IDR bond yields was relatively muted (+11bps only). Energy stocks were among underperformers this week on the back of retreating global oil prices, as also technology and property sectors.

The Week Ahead – Bank Indonesia and ECB Interest Rate Decisions

The key economic data to focus next week include Fed Brainard Speech (Wed 01:35), US Existing Home Sales (Wed 21:00), Indonesia Interest Rate Decision (Thu 14:30), ECB Interest Rate Decision (Thu 19:15), US Initial Jobless Claims (Thu 19:30), ECB President Lagarde Speech (Thu 21:15).

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 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	31,288.26	-0.16%	-13.90%
S&P 500	3,863.16	-0.93%	-18.95%
Nasdaq	11,452.42	-1.57%	-26.80%
FTSE 100	7,159.01	-0.52%	-3.05%
DAX	12,864.72	-1.16%	-19.01%
Nikkei 225	26,788.47	1.02%	-6.96%
Hang Seng	20,297.72	-6.22%	-13.25%
Shanghai	3,228.06	-3.81%	-11.31%
MSCI World	2,568.64	-1.34%	-20.52%
MSCI Emerging Markets	961.85	-3.77%	-21.93%

JCI Sector Indices	Last	1W	YTD
Transportation	1,929.15	1.86%	20.62%
Basic Materials	1,215.14	1.10%	-1.56%
Industrials	1,179.96	1.09%	13.82%
Healthcare	1,525.90	1.05%	7.45%
Financials	1,407.80	-0.38%	-7.80%
Consumer Cyclical	865.72	-0.43%	-3.85%
Infrastructures	952.59	-0.78%	-0.70%
Consumer Non-Cyclical	702.42	-1.06%	5.77%
JCI	6,651.90	-1.31%	1.07%
Energy	1,626.38	-1.36%	42.73%
Property & Real Estate	658.40	-1.58%	-14.83%
Technology	7,635.85	-1.89%	-15.10%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.13	2 bps	240 bps
UST 10Y Yield	2.93	-15 bps	142 bps
Ind GB 10Y Yield	7.37	11 bps	98 bps
USDIDR	14,996	19.4	754.35
CDS Indo 5Y	162.01	17.03	87.46

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-4.41Tn	+47.57Tn
Government Bond Market (Rp)	-7.65Tn	-127.28Tn

Commodities	Last	1W	YTD
WTI	97.57	-6.90%	26.73%
Brent	101.16	-5.48%	27.53%
CPO (Malaysia)	3,588.00	-13.69%	-23.38%
Coal (New Castle)	410.00	-0.49%	141.03%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,018.14	-1.91%	2.42%
XIIT	IDX30	540.34	-2.24%	2.40%
XIJI	JII	623.91	0.01%	4.00%
XISI	SMInfra18	338.81	-0.23%	2.81%
XISR	SriKehati	397.65	-1.10%	4.65%
XIHD	IDXHIDIV20	536.53	-0.99%	8.83%
XIPI	Pefindo I-Grade	180.95	-1.27%	1.53%
XIIML	MSCI Indo Large Cap	249.60	-1.38%	-2.09%
XIID	IDX30	525.96	-2.26%	2.18%
XIFE	FTSE ESG Indonesia	103.94	-0.98%	1.81%
XIIC	Consumer Related	939.75	-1.87%	-3.11%
XIIF	Rate Sensitive	492.48	-1.41%	-6.51%
XISC	BUMN Stocks	675.51	-1.21%	-0.02%
XISB	Sovereign Bonds	433.71	-0.62%	-3.78%

Conventional	Last	1W	YTD
RDMP Equity	862.61	-2.26%	-10.69%
RPCF Balanced	2,570.04	-1.45%	-9.85%
RDPO 2 Fixed Income	1,026.46	0.09%	
RDPU 2 Money Market	1,362.49	0.07%	1.89%

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	24.3	43.4	10.7	9.8	11.83	13.0	3.8	1.14
2 XIIT	26.3	44.9	5.7	10.1	13.01	13.5	3.6	1.07
3 XISC	19.5	37.9	11.8	16.8	14.03	11.6	4.5	1.33
4 XISR	27.4	57.9	8.9	5.3	0.48	14.0	3.7	1.11
5 XIIF	10.8	54.7	22.4	0.0	12.15	17.5	3.3	1.29
6 XISI	49.0	18.8	16.7	15.0	0.47	12.6	4.3	1.04
7 XIPI	22.4	60.9	11.4	4.8	0.55	16.5	3.1	1.18
8 XIIC	32.2	36.8	16.4	2.7	11.87	21.4	3.1	1.09
9 XIHD	25.2	54.3	3.4	16.3	0.89	12.2	4.3	1.12
10 XIJI	45.4	0.7	24.2	28.9	0.89	12.4	3.6	1.10
11 XIIML	19.9	76.3	3.1	0.0	0.66	15.0	3.8	1.11
12 XIID	26.4	44.7	5.7	10.0	13.09	13.5	3.7	1.07
13 XIFE	31.8	54.4	5.8	7.3	0.52	13.1	3.8	1.14
Index								
IDX80	40.0	34.9	13.1	12.0		13.8	3.1	
JCI	n/a	n/a	n/a	n/a		15.3	2.4	

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

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