

**Fed Chair's hawkish speech amid peaking US inflation spooked markets**

This week's global stocks plunge, affecting mostly developed market equities, came on Friday after Fed Chair Jerome Powell delivered policy speech during Jackson Hole, Wyoming, annual symposium, whereas emerging market equities were resilient this time. Powell pledged the Fed will use its tools forcefully to attack inflation as he stated higher interest rates will likely persist for some time and historical records cautioned strongly against prematurely loosening policy. This hawkish remarks came amid signs that US inflation may have peaked, as also reflected in Friday's release of PCE Price Index, which slowed to 6.3% YoY in July (previously: 6.8%), although prices excluding energy were little changed. Powell said the Fed will not be swayed by a month or two of data. After the speech, the probability for another 75-basis-point rate hike in Fed's September meeting has increased. Meanwhile, this week's economic data releases showed weaker-than-expected durable goods orders growth of 0% MoM (cons.: 0.6%) and personal income and spending growth of 0.2%/0.1% MoM, respectively, in July (cons.: 0.6%/0.4%, respectively). The US bond market is also affected by renewed rate fears with 2-yr UST yield rising to 3.38% (+14bps) while the 10-yr yield climbed to 3.03% (+5bps) this week.

In Indonesia, JCI eased 0.52% this week amid sustained strong foreign inflows of Rp5.11Tn. Energy sector was the only sector gaining this week, in line with the increase in oil prices, while remaining equity sectors corrected, particularly the transportation sector amid news of the government's plan to raise the price of subsidized fuel, which also seemed to underpin BI's unexpected 25bps rate hike this week in anticipation of rising inflation in the months ahead.

**The Week Ahead – Fed Speeches, US Jobs Reports, Indonesia Inflation**

The key economic data to focus next week are Fed Brainard Speech (Tue 01:15), China NBS Manufacturing & Non-Manufacturing PMIs (Wed 08:30), EU Inflation Rate (Wed 16:00), US ADP Employment Change (Wed 19:15), China Caixin Manufacturing PMI (Thu 08:45), Indonesia Inflation Rate (Thu 11:00), US Jobless Claims (Thu 19:30), US Non Farm Payrolls and Unemployment Rate (Fri 19:30).

**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 in May (from 7,400) due to upgraded consensus earnings growth forecasts to 28% for 2022 (from 18%) on the back of stronger than expected Q1 earnings results. Our JCI target is based our forward target P/E of 15x, in line with 10-yr mean P/E before the pandemic. In addition, we view Indonesian stocks as attractively valued due to underperformance vs. 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 BBKA, 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 BBKA. 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                  | 32,283.40 | -4.22% | -11.16% |
| S&P 500               | 4,057.66  | -4.04% | -14.87% |
| Nasdaq                | 12,141.71 | -4.44% | -22.39% |
| FTSE 100              | 7,427.31  | -1.63% | 0.58%   |
| DAX                   | 12,971.47 | -4.23% | -18.34% |
| Nikkei 225            | 28,641.38 | -1.00% | -0.52%  |
| Hang Seng             | 20,170.04 | 2.01%  | -13.79% |
| Shanghai              | 3,236.22  | -0.67% | -11.09% |
| MSCI World            | 2,694.62  | -3.34% | -16.62% |
| MSCI Emerging Markets | 1,006.50  | 0.50%  | -18.30% |

| JCI Sector Indices     | Last            | 1W            | YTD          |
|------------------------|-----------------|---------------|--------------|
| Energy                 | 1,904.45        | 4.34%         | 67.13%       |
| Consumer Cyclical      | 893.39          | -0.15%        | -0.78%       |
| Healthcare             | 1,405.16        | -0.19%        | -1.05%       |
| Financials             | 1,499.65        | -0.44%        | -1.78%       |
| Property & Real Estate | 712.43          | -0.44%        | -7.84%       |
| <b>JCI</b>             | <b>7,135.25</b> | <b>-0.52%</b> | <b>8.41%</b> |
| Consumer Non-Cyclical  | 708.78          | -0.60%        | 6.72%        |
| Infrastructures        | 1,035.59        | -0.68%        | 7.96%        |
| Technology             | 7,976.84        | -0.86%        | -11.31%      |
| Industrials            | 1,307.06        | -1.15%        | 26.08%       |
| Basic Materials        | 1,293.23        | -1.31%        | 4.77%        |
| Transportation         | 1,978.52        | -4.65%        | 23.71%       |

| Rates and Bonds  | Last   | 1W     | YTD     |
|------------------|--------|--------|---------|
| UST 2Y Yield     | 3.38   | 14 bps | 265 bps |
| UST 10Y Yield    | 3.03   | 5 bps  | 152 bps |
| Ind_GB 10Y Yield | 7.07   | -2 bps | 69 bps  |
| USDIDR           | 14,853 | -22.4  | 611     |
| CDS Indo 5Y      | 96.96  | -13.99 | 22.41   |

| Foreign Fund Flows          | 1W      | YTD      |
|-----------------------------|---------|----------|
| Equity Regular Market (Rp)  | +5.11Tn | +60.17Tn |
| Government Bond Market (Rp) | .*      | .*       |

\*data is not available at the moment

| Commodities       | Last     | 1W    | YTD     |
|-------------------|----------|-------|---------|
| WTI               | 92.97    | 3.40% | 20.76%  |
| Brent             | 100.99   | 4.41% | 27.32%  |
| CPO (Malaysia)    | 4,172.00 | 1.93% | -10.91% |
| Coal (New Castle) | 417.40   | 0.28% | 145.39% |

| Funds and ETFs           | Last     | 1W     | YTD    |
|--------------------------|----------|--------|--------|
| <i>ETF Theme</i>         |          |        |        |
| RLQ45 LQ45               | 1,100.28 | -1.07% | 10.68% |
| XIIT IDX30               | 584.46   | -1.34% | 10.77% |
| XIJI JII                 | 675.25   | 0.06%  | 12.56% |
| XISI SMlnfra18           | 371.49   | 1.09%  | 12.73% |
| XISR SriKehati           | 436.79   | -0.88% | 14.95% |
| XIHD IDXHIDIV20          | 593.93   | -0.31% | 20.47% |
| XIPI Pefindo I-Grade     | 199.55   | -1.02% | 11.96% |
| XIML MSCI Indo Large Cap | 273.85   | -1.29% | 7.43%  |
| XIID IDX30               | 567.68   | -1.37% | 10.28% |
| XIFE FTSE ESG Indonesia  | 113.92   | -0.49% | 11.60% |
| XIIC Consumer Related    | 1,003.23 | -1.45% | 3.44%  |
| XIIF Rate Sensitive      | 540.39   | -0.83% | 2.58%  |
| XISC BUMN Stocks         | 741.55   | 0.02%  | 9.75%  |
| XISB Sovereign Bonds     | 443.73   | -0.21% | -1.56% |

| Conventional        | Last     | 1W     | YTD    |
|---------------------|----------|--------|--------|
| RDMP Equity         | 941.53   | -1.21% | -2.52% |
| RPCF Balanced       | 2,725.16 | -1.26% | -4.41% |
| RDPO 2 Fixed Income | 1,033.27 | 0.10%  |        |
| RDPU 2 Money Market | 1,367.89 | 0.06%  | 2.30%  |

## 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           | 21.6                                  | 48.8           | 8.2           | 10.2        | 11.23 | 13.2    | 3.4            | 1.14        |
| 2 XIIT            | 22.1                                  | 49.7           | 5.1           | 10.8        | 12.30 | 13.5    | 3.4            | 1.07        |
| 3 XISC            | 19.3                                  | 39.8           | 11.8          | 15.7        | 13.31 | 12.4    | 4.2            | 1.33        |
| 4 XISR            | 26.2                                  | 59.3           | 8.6           | 5.5         | 0.41  | 14.6    | 3.4            | 1.11        |
| 5 XIIF            | 10.9                                  | 56.7           | 23.1          | 0.0         | 9.35  | 17.9    | 3.1            | 1.29        |
| 6 XISI            | 48.2                                  | 19.4           | 16.5          | 15.4        | 0.54  | 12.9    | 4.0            | 1.04        |
| 7 XIPI            | 22.8                                  | 62.4           | 8.8           | 5.5         | 0.41  | 16.9    | 2.9            | 1.18        |
| 8 XIIC            | 30.4                                  | 39.1           | 16.9          | 3.2         | 10.37 | 21.1    | 2.9            | 1.09        |
| 9 XIHD            | 24.1                                  | 56.4           | 3.2           | 15.4        | 0.93  | 12.8    | 4.0            | 1.12        |
| 10 XIJI           | 45.1                                  | 0.7            | 20.4          | 32.8        | 0.96  | 12.4    | 3.4            | 1.10        |
| 11 XIIML          | 19.4                                  | 77.2           | 3.0           | 0.0         | 0.45  | 15.6    | 3.4            | 1.11        |
| 12 XIID           | 22.1                                  | 49.7           | 5.1           | 10.9        | 12.24 | 13.8    | 3.5            | 1.07        |
| 13 XIFE           | 30.7                                  | 55.7           | 5.6           | 7.7         | 0.44  | 13.2    | 3.6            | 1.14        |
| <b>Index</b>      |                                       |                |               |             |       |         |                |             |
| IDX80             | 38.2                                  | 36.6           | 11.8          | 13.3        |       | 15.9    | 2.9            |             |
| JCI               | 34.5                                  | 38.0           | 13.5          | 14.1        |       | 16.3    | 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

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