

**Lower than expected US CPI and PPI inflation triggered global stocks rally**

Global stock markets resume their recoveries this week, after cooling off in the prior week, after US July inflation data showed signs of slowing, which in turn have positive implications on market's Fed rate hike expectations. Headline US CPI inflation in July was flat month over month, down from 1.3% MoM rise in June, which lowered the annual inflation rate to 8.5% (down from 9.1% YoY), or better than consensus expectations of 0.2% MoM / 8.7% YoY, respectively, due to the declines in energy and gasoline prices and despite still rising food prices. However, excluding the volatile food & energy costs, core CPI inflation of 0.3% MoM (5.9% YoY) was also below expectations. Similarly to the consumer prices, the producer price index also showed signs of slowing as July headline PPI fell 0.5% MoM (June: +1.0%) while core PPI inflation slowed to 0.2% (June: +0.4%), both data were also lower than expected. Despite Fed officials reiterating plans to tame inflation by raising interest rates, as the July inflation remains elevated, market expectations are shifting back (once again) to a 50-basis-point rate hike at the September Fed meeting versus a 75-basis-point rate hike expectation in the prior week. Market now expects the Fed Fund's Rate to rise to 3.75% by the end 2022, from the current rate of 2.50%, before pausing in 2023. Meanwhile, the University of Michigan's consumer sentiment survey revealed an improving US consumer sentiment for a second consecutive month, after the index in June declined to its lowest level in records dating back to 1952.

In Indonesia, JCI gained 0.63% as foreign inflows continued into both domestic equities (Rp4.21Tn) and bonds (Rp3.76Tn), which contributed to strengthening of the currency. Defensive sectors such as healthcare and consumer continued to be among the laggard stocks this week while cyclical stocks outperformed.

**The Week Ahead – Indonesia Trade Balance, US Retail Sales, Fed Minutes**

The key economic data to focus next week are Indonesia Trade Balance (Mon 11:00), US Industrial Production (Tue 20:15), US Retail Sales (Wed 19:30), FOMC Minutes (Thu 01:00), US Initial Jobless Claims (Thu 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 on 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	33,761.05	2.92%	-7.09%
S&P 500	4,280.15	3.26%	-10.20%
Nasdaq	13,047.19	3.08%	-16.60%
FTSE 100	7,500.89	0.82%	1.58%
DAX	13,795.85	1.63%	-13.15%
Nikkei 225	28,546.98	1.32%	-0.85%
Hang Seng	20,175.62	-0.13%	-13.77%
Shanghai	3,276.89	1.55%	-9.97%
MSCI World	2,834.51	3.00%	-12.29%
MSCI Emerging Markets	1,016.83	1.39%	-17.47%

JCI Sector Indices	Last	1W	YTD
Basic Materials	1,353.09	2.89%	9.62%
Energy	1,816.88	2.77%	59.45%
Property & Real Estate	712.12	2.31%	-7.88%
Infrastructures	1,050.72	1.21%	9.53%
Transportation	2,088.31	1.18%	30.57%
<b>JCI</b>	<b>7,129.28</b>	<b>0.63%</b>	<b>8.32%</b>
Industrials	1,310.33	0.38%	26.40%
Financials	1,526.29	0.14%	-0.04%
Technology	8,083.54	0.11%	-10.13%
Consumer Cyclical	899.04	0.05%	-0.15%
Consumer Non-Cyclical	703.50	-0.04%	5.93%
Healthcare	1,414.35	-0.60%	-0.40%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.25	2 bps	252 bps
UST 10Y Yield	2.84	2 bps	133 bps
Ind GB 10Y Yield	6.97	-17 bps	59 bps
USDIDR	14,662	-284.5	419.5
CDS Indo 5Y	97.19	-20.07	22.64

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.21Tn	+55.06Tn
Government Bond Market (Rp)	+3.76Tn	-126.1Tn

Commodities	Last	1W	YTD
WTI	91.88	3.78%	19.34%
Brent	98.15	3.40%	23.74%
CPO (Malaysia)	4,407.00	13.64%	-5.89%
Coal (New Castle)	407.65	12.92%	139.65%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,098.45	0.43%	10.50%
XIIT	IDX30	584.51	0.40%	10.78%
XIJI	JII	683.23	0.85%	13.89%
XISI	SMInfra18	369.51	-0.19%	12.13%
XISR	SriKehati	438.48	0.85%	15.39%
XIHD	IDXHIDIV20	592.83	0.33%	20.25%
XIPI	Pefindo I-Grade	201.43	0.54%	13.02%
XIML	MSCI Indo Large Cap	276.05	0.25%	8.29%
XIID	IDX30	568.09	0.37%	10.36%
XIFE	FTSE ESG Indonesia	114.88	0.66%	12.53%
XIIC	Consumer Related	1,012.10	1.19%	4.35%
XIIF	Rate Sensitive	543.55	1.83%	3.18%
XISC	BUMN Stocks	747.43	2.21%	10.62%
XISB	Sovereign Bonds	446.75	0.92%	-0.89%

Conventional	Last	1W	YTD	
RDMP	Equity	950.89	1.19%	-1.55%
RPCF	Balanced	2,768.22	0.98%	-2.90%
RDPO 2	Fixed Income	1,031.22	0.14%	
RDPU 2	Money Market	1,366.08	0.07%	2.16%

## 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	13.5	3.4	1.14
2 XIIT	26.0	45.4	5.8	10.7	12.06	13.8	3.4	1.07
3 XISC	19.2	38.4	11.5	17.4	13.50	12.6	4.2	1.33
4 XISR	26.9	58.4	8.9	5.4	0.43	14.8	3.4	1.11
5 XIIF	10.7	55.3	22.4	0.0	11.55	18.4	3.1	1.29
6 XISI	48.7	19.2	16.6	15.0	0.43	13.4	3.9	1.04
7 XIPI	21.7	61.2	11.2	5.4	0.50	16.9	2.9	1.18
8 XIIC	32.1	37.4	16.5	3.1	10.83	21.7	2.9	1.09
9 XIHD	24.6	54.7	3.4	16.5	0.83	13.0	4.0	1.12
10 XIJI	44.4	0.7	23.8	30.3	0.81	12.9	3.3	1.10
11 XIIML	19.4	76.8	3.2	0.0	0.60	15.9	3.4	1.11
12 XIID	26.2	45.2	5.8	10.7	12.11	14.0	3.5	1.07
13 XIFE	31.8	54.5	5.8	7.5	0.47	13.6	3.6	1.14
<b>Index</b>								
IDX80	37.2	36.5	13.3	13.1		16.2	2.9	
JCI	33.8	38.0	14.4	13.8		16.7	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	<a href="mailto:noviono@ipc.co.id">noviono@ipc.co.id</a>	Ext.	2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	<a href="mailto:m.fairuz@ipc.co.id">m.fairuz@ipc.co.id</a>	Ext.	2311	0818-0262-7732
Frida Dwi Tyas	Relationship Manager & Distribution Channel	<a href="mailto:frida.tyas@ipc.co.id">frida.tyas@ipc.co.id</a>	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