

**Persistent US inflation drove 2-yr yield to 3.87%, its highest since 2007**

Equity markets globally tumbled this week, particularly major US stock indices which recorded their steepest weekly declines since June. Tuesday's release of US consumer price index (CPI) inflation data showed that key drivers of inflation are not settling down. While annual headline inflation number eased to 8.3% in August (July: 8.5% YoY), the core inflation metric, which excludes food and gas prices, climbed to a higher than expected 6.3% (cons.: 6.1%), from 5.9% in prior month, thus dimming hopes that US inflation had peaked following the retreat in commodity prices in recent months. Similarly, the core producer prices (PPI) rose 0.4% MoM, above the prior month's and consensus expectation's of 0.3%, although on year-on-year it continued its downtrend to 7.3% (July: 7.6%). Other economic data released this week does not appear to have helped improve the negative sentiment either. Although the US retail sales unexpectedly grew 0.3% MoM in August (July: -0.4%), excluding auto sales it was weaker than expected at -0.3% MoM. In the week ahead, global markets' attention will focus on Fed's policy meeting on 20-21 September, with markets expecting Fed Fund's rate to be increased by three-quarters of a percentage point or even by a full point, from its current range of 2.25-2.50%. Meanwhile, the US bond market has also negatively reacted to the inflation data with the 2-yr UST yields rising to 3.87% (+31bps) while 10-yr yields to 3.46% (+14bps), thus worsening the yield curve inversion which is usually interpreted as market signal for upcoming recession.

In Indonesia, JCI corrected modestly by 1.02% amid sustained foreign inflows (+Rp4.66Tn), particularly into major bank stocks. Property and energy sectors gained the most this week, followed by healthcare and consumer, while basic materials and technology sectors corrected the most.

**The Week Ahead – Fed Rate Decision, FOMC Projections, BI Rate Decision**

The key economic data to focus next week are ECB President Lagarde Speech (Wed 00:00), US Existing Home Sales (Wed 21:00), Fed Interest Rate Decision & FOMC Economic Projections (Thu 01:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30), Fed Chair Powell Speech (Sat 01:00).

**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 in May (from 7,400) due to upgraded consensus earnings growth forecasts to 34% for 2022 (from 18%) on the back of stronger than expected H1 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 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	30,822.42	-4.13%	-15.18%
S&P 500	3,873.33	-4.77%	-18.73%
Nasdaq	11,448.40	-5.48%	-26.82%
FTSE 100	7,236.68	-1.56%	-2.00%
DAX	12,741.26	-2.65%	-19.79%
Nikkei 225	27,567.65	-2.29%	-4.25%
Hang Seng	18,761.69	-3.10%	-19.81%
Shanghai	3,126.40	-4.16%	-14.10%
MSCI World	2,569.29	-4.23%	-20.50%
MSCI Emerging Markets	944.12	-2.70%	-23.37%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	737.08	2.95%	-4.65%
Energy	2,034.77	1.20%	78.57%
Healthcare	1,449.21	0.81%	2.05%
Consumer Non-Cyclicals	702.55	0.80%	5.78%
Transportation	1,903.48	0.01%	19.01%
Financials	1,512.67	-0.06%	-0.93%
Industrials	1,363.44	-0.14%	31.52%
Consumer Cyclical	880.04	-0.24%	-2.26%
Infrastructures	1,027.23	-0.71%	7.08%
<b>JCI</b>	<b>7,168.87</b>	<b>-1.02%</b>	<b>8.92%</b>
Technology	7,483.51	-2.01%	-16.80%
Basic Materials	1,304.13	-2.44%	5.65%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.87	31 bps	314 bps
UST 10Y Yield	3.46	14 bps	194 bps
Ind GB 10Y Yield	7.21	4 bps	83 bps
USDIDR	14,999	169.2	757.2
CDS Indo 5Y	96.96	-25.92	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.66Tn	+70.9Tn
Government Bond Market (Rp)	+3.12Tn	-141.14Tn

Commodities	Last	1W	YTD
WTI	85.40	-0.96%	10.92%
Brent	91.74	-0.65%	15.66%
CPO (Malaysia)	3,724.00	3.62%	-20.48%
Coal (New Castle)	439.00	0.86%	158.08%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,107.13	-1.40%	11.37%
XIIT IDX30	585.57	-1.60%	10.98%
XIJI JII	689.83	0.00%	14.99%
XISI SMInfra18	376.87	-0.75%	14.36%
XISR SriKehati	451.46	0.05%	18.81%
XIHD IDXHIDIV20	616.38	-0.55%	25.02%
XIPI Pefindo i-Grade	207.53	-0.61%	16.44%
XIML MSCI Indo Large Cap	281.80	-0.86%	10.54%
XIID IDX30	567.99	-1.65%	10.34%
XIFE FTSE ESG Indonesia	117.34	-0.23%	14.94%
XIIC Consumer Related	1,025.26	0.86%	5.71%
XIIF Rate Sensitive	557.06	1.39%	5.75%
XISC BUMN Stocks	756.84	0.64%	12.01%
XISB Sovereign Bonds	443.37	-0.14%	-1.64%

Conventional			
RDMP Equity	946.01	-0.61%	-2.06%
RPCF Balanced	2,694.06	-1.07%	-5.50%
RDPO 2 Fixed Income	1,036.13	0.10%	
RDPU 2 Money Market	1,370.58	0.07%	2.50%

## 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	21.0	50.3	9.3	11.0	8.35	13.4	3.4	1.14
2 XIIT	21.9	52.1	5.0	11.7	9.28	13.7	3.4	1.07
3 XISC	19.1	40.0	12.1	15.5	13.24	12.8	4.2	1.33
4 XISR	24.0	61.4	8.6	5.7	0.31	14.9	3.4	1.11
5 XIIF	10.1	57.3	24.1	0.0	8.51	18.1	3.0	1.29
6 XISI	44.4	20.4	17.5	17.2	0.46	13.1	3.9	1.04
7 XIPI	20.7	62.8	10.9	5.3	0.29	17.4	2.8	1.18
8 XIIC	30.0	40.2	17.7	3.1	9.01	21.4	2.8	1.09
9 XIHD	22.6	57.2	2.9	16.5	0.78	13.1	3.9	1.12
10 XIJI	42.5	0.7	23.3	33.1	0.45	12.5	3.4	1.10
11 XIML	18.3	78.7	2.7	0.0	0.29	16.0	3.4	1.11
12 XIID	22.0	52.2	5.0	11.7	9.07	14.1	3.4	1.07
13 XIFE	29.2	56.8	5.6	8.1	0.30	13.5	3.6	1.14
<b>Index</b>								
IDX80	35.8	38.2	12.1	14.0		15.5	3.0	
JCI	32.4	38.9	14.3	14.4		15.8	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 &amp; 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
Devandara Harahap	Institutional Marketing	<a href="mailto:devan.harahap@ipc.co.id">devan.harahap@ipc.co.id</a>	Ext. 2315	0856-1167-750
Dewi Rijanti Suherman	Institutional Marketing	<a href="mailto:dewi.suherman@ipc.co.id">dewi.suherman@ipc.co.id</a>	Ext. 2313	0812-9665-7019

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