

**Peak inflation optimism as oil prices near lowest levels post Ukraine war**

US stocks ended this week with solid gains after declining for three consecutive weeks as investors focus on inflation and grow more optimistic that the market is close to bottoming out. The US stocks' rally was driven by a mid-week fall in oil prices to their lowest levels since the start of Russia-Ukraine war in February. On Wednesday, the price of WTI crude briefly fell to as low as \$81.5, well below its peak of \$122 recorded only three months ago in early June, although crude price bounced back to close the week at \$86.2. Meanwhile, economic reports released by the Fed also indicated moderating price increases due to lower fuel prices and cooling demand. As such, investor focus will be on US inflation data (CPI & PPI) for August to be released early next week. Consensus expectations are for very slight easing in both consumer and producer prices by -0.1% MoM in August (vs. 0% / -0.5% in July, respectively), which should lead to moderating US annual CPI inflation to 8.1% YoY in August (July: 8.5%). Meanwhile, the core inflation rates are expected to remain unchanged at 0.3% MoM in August. As such, a better than expected inflation moderation (if any) could sustain recovery of the global stock markets, in our view. Elsewhere in Europe, the ECB approved its biggest-ever interest-rate increase by raising its key lending rate from 0% to 0.75% in response to a recent jump in eurozone annual inflation to 9.1%, which also led to further rise in 10-year US Treasury yield to 3.32% (+12bps) this week as the Fed is also widely expected to hike rate by 75-basis-point (0.75%) during its upcoming meeting on 20-21 September.

In Indonesia, JCI gained modestly by 0.91% amid sustained foreign inflows into equity market (+Rp4.35Tn), which was in marked contrast to sustained outflows from bond market (-Rp8.43Tn). Energy, basic materials, industrials and property sectors were the key market drivers this week.

**The Week Ahead – US Inflation Rates (CPI & PPI), Indonesia Trade Balance**

The key economic data to focus next week are US CPI Inflation (Tue 19:30) and PPI Inflation (Wed 19:30), Indonesia Trade Balance (Thu 11:00), US Retail Sales, Initial Jobless Claims (Thu 19:30), US Michigan Consumer Sentiment (Fri 21:00).

**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	32,151.71	2.66%	-11.52%
S&P 500	4,067.36	3.65%	-14.66%
Nasdaq	12,112.31	4.14%	-22.58%
FTSE 100	7,351.07	0.96%	-0.45%
DAX	13,088.21	0.29%	-17.61%
Nikkei 225	28,214.75	2.04%	-2.00%
Hang Seng	19,362.25	-0.46%	-17.25%
Shanghai	3,262.05	2.37%	-10.38%
MSCI World	2,682.90	2.98%	-16.98%
MSCI Emerging Markets	970.29	-0.18%	-21.24%

JCI Sector Indices	Last	1W	YTD
Energy	2,010.73	3.70%	76.46%
Basic Materials	1,336.80	3.56%	8.30%
Industrials	1,365.38	2.21%	31.71%
Property & Real Estate	715.97	1.56%	-7.38%
<b>JCI</b>	<b>7,242.66</b>	<b>0.91%</b>	<b>10.05%</b>
Technology	7,637.19	0.68%	-15.09%
Healthcare	1,437.62	0.36%	1.24%
Consumer Cyclical	882.15	-0.06%	-2.03%
Financials	1,513.60	-0.39%	-0.87%
Infrastructures	1,034.61	-0.94%	7.85%
Consumer Non-Cyclicals	696.95	-1.80%	4.94%
Transportation	1,903.27	-3.03%	19.00%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.56	17 bps	283 bps
UST 10Y Yield	3.32	12 bps	180 bps
Ind GB 10Y Yield	7.18	3 bps	80 bps
USDIDR	14,830	-62.3	588
CDS Indo 5Y	122.88	3.20	48.33

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.35Tn	+66.24Tn
Government Bond Market (Rp)	-8.43Tn	-143.14Tn

Commodities	Last	1W	YTD
WTI	86.22	-1.18%	11.99%
Brent	92.34	-0.90%	16.41%
CPO (Malaysia)	3,594.00	-8.20%	-23.25%
Coal (New Castle)	435.25	0.06%	155.88%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,122.82	1.22%	12.95%
XIIT IDX30	595.09	1.09%	12.78%
XIJI JII	689.81	1.28%	14.99%
XISI SMlnfra18	379.71	1.07%	15.22%
XISR SriKehati	451.24	1.11%	18.75%
XIHD IDXHIDIV20	619.78	1.50%	25.71%
XIPI Pefindo i-Grade	208.80	2.25%	17.15%
XIML MSCI Indo Large Cap	284.23	1.15%	11.50%
XIID IDX30	577.55	1.05%	12.20%
XIFE FTSE ESG Indonesia	117.61	1.30%	15.20%
XIIC Consumer Related	1,016.57	0.51%	4.82%
XIIF Rate Sensitive	549.41	0.68%	4.29%
XISC BUMN Stocks	752.00	0.67%	11.30%
XISB Sovereign Bonds	443.98	0.18%	-1.50%

Conventional	Last	1W	YTD
RDMP Equity	951.77	0.49%	-1.46%
RPCF Balanced	2,723.08	0.08%	-4.48%
RDPO 2 Fixed Income	1,035.11	0.10%	
RDPU 2 Money Market	1,369.64	0.07%	2.43%

## 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	21.1	49.7	9.3	10.6	9.31	13.5	3.4	1.14
2 XIIT	21.9	51.4	5.1	11.3	10.33	13.7	3.4	1.07
3 XISC	19.5	40.8	11.6	15.4	12.76	12.9	4.1	1.33
4 XISR	24.1	61.4	8.6	5.6	0.33	14.9	3.4	1.11
5 XIIF	10.6	58.2	22.7	0.0	8.52	18.2	3.0	1.29
6 XISI	47.0	20.0	16.1	16.4	0.54	13.3	3.9	1.04
7 XIPI	21.3	62.5	10.9	5.0	0.32	17.6	2.8	1.18
8 XIIC	29.8	40.3	17.1	2.9	9.92	21.4	2.9	1.09
9 XIHD	23.0	56.8	3.0	16.4	0.81	13.1	3.9	1.12
10 XIJI	42.4	0.6	24.0	32.5	0.47	12.7	3.4	1.10
11 XIML	18.6	78.2	2.9	0.0	0.32	16.0	3.4	1.11
12 XIID	21.9	51.5	5.1	11.3	10.17	14.0	3.4	1.07
13 XIFE	29.4	56.7	5.6	8.1	0.32	13.5	3.6	1.14
<b>Index</b>								
IDX80	36.7	37.8	11.9	13.6		15.6	3.0	
JCI	33.0	38.5	14.4	14.1		16.1	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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