

**Slower US inflation in October drove strong recoveries in global markets**

Global markets were up strongly across both developed and emerging markets after Thursday's release of a lower than expected US inflation data for October, which provided a relief to investors as this could be the start of a disinflationary trend. US headline CPI inflation of 0.4% MoM in October was below consensus expectation of 0.6% while its annual increase of 7.7% was the smallest rise since the beginning of 2022. More importantly, the core inflation rate, which excludes food and energy prices, also slowed to 0.3% MoM (6.3% YoY), from 0.6% in the previous month, also better than expected. In turn, slowing inflation could lead to expectations that the Fed could begin to slow the pace of its rate increases in December. The strong positive reactions in US stock and bond markets that day (S&P500: +5.5%; 10-yr UST yields: -30bps) showed that inflation remains as the No. 1 market driver this year, particularly for high growth stocks such as in technology sector (Nasdaq: +7.4% on Thursday). However, for the recoveries in markets to be sustained, inflation will have to show a decelerating trend in the coming months. Meanwhile, the University of Michigan's consumer sentiment survey showed that US consumer confidence weakened by more than expected in November.

In Indonesia, JCI gained more modestly by only 0.62% as it has performed well ahead of most other equity markets globally this year. Foreign inflows returned to domestic markets, particularly in bond market (+Rp3.2Tn), which lowered 10-yr yields to 7.16% (-32bps). In line with the US stock markets, Indonesia's technology sector gained the most this week, followed by banking sector, while energy sector corrected due to lower commodity prices for coal and crude oils.

**The Week Ahead – Indonesia Trade Balance, BI Meeting, US PPI Inflation**

The key economic data to focus next week include Indonesia Trade Balance (Tue 11:00), US Producer Price Index (PPI) Inflation (Tue 20:30), US Retail Sales (Wed 20:30), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 20:30), and US Existing Home Sales (Thu 22:00).

**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 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 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	33,747.86	4.15%	-7.13%
S&P 500	3,992.93	5.90%	-16.22%
Nasdaq	11,323.33	8.10%	-27.62%
FTSE 100	7,318.04	-0.23%	-0.90%
DAX	14,224.86	5.68%	-10.45%
Nikkei 225	28,263.57	3.91%	-1.83%
Hang Seng	17,325.66	7.21%	-25.95%
Shanghai	3,087.29	0.54%	-15.18%
MSCI World	2,674.08	6.66%	-17.26%
MSCI Emerging Markets	935.73	5.73%	-24.05%

JCI Sector Indices	Last	1W	YTD
Technology	6,940.87	4.44%	-22.83%
Financials	1,501.23	1.79%	-1.68%
Basic Materials	1,318.27	1.30%	6.80%
Property & Real Estate	698.96	1.22%	-9.59%
<b>JCI</b>	<b>7,089.21</b>	<b>0.62%</b>	<b>7.71%</b>
Consumer Cyclical	886.25	0.48%	-1.57%
Infrastructures	925.11	0.44%	-3.56%
Healthcare	1,481.03	-0.40%	4.29%
Consumer Non-Cyclical	724.78	-0.57%	9.13%
Industrials	1,227.54	-1.35%	18.41%
Energy	1,980.57	-2.35%	73.81%
Transportation	1,808.41	-2.44%	13.07%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.33	-33 bps	392 bps
UST 10Y Yield	3.81	-35 bps	265 bps
Ind GB 10Y Yield	7.16	-32 bps	110 bps
USDIDR	15,473.85	(140.65)	1372.5
CDS Indo 5Y	96.96	-36.85	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.89Tn	+64.20Tn
Government Bond Market (Rp)	+3.21Tn	-173.12Tn

Commodities	Last	1W	YTD
WTI	88.86	-4.05%	15.42%
Brent	95.99	-2.62%	21.02%
CPO (Malaysia)	4,287.00	-1.83%	-8.46%
Coal (New Castle)	325.00	-7.01%	91.06%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,106.60	0.61%	11.32%
XIIT	IDX30	583.14	0.77%	10.52%
XIJI	JII	677.26	-0.28%	12.89%
XISI	SMinfra18	369.50	-1.76%	12.12%
XISR	SriKehati	460.27	0.05%	21.13%
XIHD	IDXHIDIV20	618.67	-0.69%	25.49%
XIPI	Pefindo I-Grade	214.19	0.64%	20.18%
XIIML	MSCI Indo Large Cap	287.88	0.68%	12.93%
XIID	IDX30	563.23	0.72%	9.42%
XIFE	FTSE ESG Indonesia	119.17	0.25%	16.73%
XIIC	Consumer Related	1,037.06	1.18%	6.93%
XIIF	Rate Sensitive	543.17	0.74%	3.11%
XISC	BUMN Stocks	747.06	0.08%	10.57%
XISB	Sovereign Bonds	447.44	1.62%	-0.74%

Conventional	Last	1W	YTD	
RDMP	Equity	902.25	0.01%	-6.59%
RPCF	Balanced	2,575.01	-0.88%	-9.68%
RDPO 2	Fixed Income	1,042.31	0.08%	
RDPU 2	Money Market	1,377.81	0.07%	3.04%

## 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	20.7	51.5	10.2	10.6	7.05	15.6	3.2	1.14
2 XIIT	21.8	53.4	5.6	11.4	7.83	14.3	3.4	1.07
3 XISC	17.2	40.2	11.8	13.7	17.06	13.3	3.9	1.33
4 XISR	22.8	63.0	8.8	5.0	0.33	15.3	3.2	1.11
5 XIIF	10.6	56.9	22.1	0.0	10.31	18.5	2.9	1.29
6 XISI	42.4	22.8	19.2	15.3	0.26	13.0	3.9	1.04
7 XIPI	19.1	64.5	10.6	5.4	0.35	17.5	2.7	1.18
8 XIIC	30.1	40.5	17.1	3.3	9.04	24.8	2.5	1.09
9 XIHD	23.3	57.9	3.3	14.7	0.83	12.8	4.0	1.12
10 XIJI	43.0	0.6	24.3	31.4	0.74	11.5	3.7	1.10
11 XIML	17.2	80.0	2.8	0.0	0.11	16.4	3.2	1.11
12 XIID	21.8	53.4	5.6	11.4	7.85	15.1	3.5	1.07
13 XIFE	28.3	58.5	5.9	7.2	0.15	13.6	3.5	1.14
<b>Index</b>								
IDX80	34.7	39.9	12.3	13.2		15.3	3.0	
JCI	32.3	39.2	14.6	14.0		15.1	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

## 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
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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