

US retail sales drop as PPI inflation falls, yield curve inversion worsens

After a positive start to the year, developed stock markets reported first weekly corrections as positive sentiment from easing inflation turned to a rising growth concerns. Meanwhile, emerging markets (EM) held up well, outperforming DM equities so far in 2023 (8.35% vs. 4.71%), while in the US markets, growth stocks (including tech) outperformed value stocks as rate worries are easing. US stocks turned negative on Wednesday, after the December holiday season retail sales dropped more than expected at -1.1% MoM (cons.: -0.8%) while US industrial production declined 0.7% MoM (cons.: -0.1%). Positive news from a faster than expected easing of US PPI inflation (-0.5% MoM vs -0.1% cons.), which was the biggest drop of producer prices since early in the pandemic, was not enough to counter the turnaround in sentiment. Receding inflation fears also helped lower 10-yr US Treasuries yield to 3.48% (-2bps) but the yield curve inversion gap remain close to record high as markets are concerned about the prospect of US economy, which was made worse by the debt ceiling showdown in US congress between Democrats and Republicans. If the US government were to default on its debt obligations (which is still an unlikely scenario), there could be significant disruption on US bond market and currency, including sharply higher yields. In the week ahead, market focus will be on data of US Q4 GDP Growth, Durables Goods Orders and Personal Spending, which are all indicators of US economy, as well as inflation measure such as the monthly PCE Price Index.

In Indonesia, JCI rebounded strongly (+3.51%) amid a turnaround of flows into a modest inflow of Rp0.56Tn, after sustained outflows in the past 2-3 months. The energy sector, which until last week had declined the most during 2023, reported biggest gains this week, followed by industrials and financials, which were also among the most sold out by foreign investors in recent weeks. In the bond market, foreign inflows accelerated (+Rp13Tn), further lowering the 10-yr yields to 6.63% (-6bps), helped by strengthening of IDR/USD exchange rate.

The Week Ahead – US GDP Growth, Personal Spending, PCE Price Index

The key economic data to focus next week are ECB President Lagarde Speech (Tue 16:45), US GDP Growth Rate, Durable Goods Orders, Initial Jobless Claims (Thu 20:30), US Personal Income & Spending, PCE Price Index (Fri 20:30).

Investment Conclusion

Fed's aggressive rate hikes has been a key risk for global markets during 2022 but we believe the Fed Fund's rate is close to peaking although it may remain elevated throughout 2023 until there is sign US inflation is firmly under control. Indonesia's equity market has been resilient in comparison to global markets in 2022 although the JCI fell well short of our target, despite steadily upgraded earnings forecasts throughout 2022, partly due to drag from technology sector and fund flow reversals in the last two months of 2022. For 2023, we set our JCI target of 7,600 based on JCI earnings growth forecasts of 1% in 2023; 4% for 2024 and our forward P/E target of 12.5x, in line with the market's long-term (>20 years) mean forward P/E valuation.

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). However, performances of RLQ45 and XIIT during 2022 have been dragged by their exposures to major technology stocks. Meanwhile, our semi-broad funds XIPI and XISR have been our preferred ETF picks in the past few months, due to their overweight of banking sector, particularly BBKA, and more importantly, these two ETFs have no exposure to major technology stocks (eg. GOTO, BUKA, EMTK, ARTO), which we view as posing considerable downside risk to fund performances at a time of rising interest rates globally. We also like our ETFs XIIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, and XIFE (FTSE Indonesia ESG), for its overweight on banking sector, particularly BBKA (no weight capping), while also underweight on resources and technology.

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	33,375.49	-2.70%	0.69%
S&P 500	3,972.61	-0.66%	3.47%
Nasdaq	11,140.43	0.55%	6.44%
FTSE 100	7,770.59	-0.94%	4.28%
DAX	15,033.56	-0.35%	7.97%
Nikkei 225	26,553.53	1.66%	1.76%
Hang Seng	22,044.65	1.41%	11.44%
Shanghai	3,264.81	2.18%	5.68%
MSCI World	2,725.40	-0.38%	4.71%
MSCI Emerging Markets	1,036.24	0.62%	8.35%

JCI Sector Indices	Last	1W	YTD
Energy	2,233.19	5.08%	-2.03%
Industrials	1,184.86	4.83%	0.90%
JCI	6,874.93	3.51%	0.35%
Financials	1,393.62	2.77%	-1.51%
Technology	5,370.22	2.17%	4.03%
Basic Materials	1,265.55	1.63%	4.06%
Infrastructures	851.34	1.52%	-1.99%
Property & Real Estate	703.71	1.44%	-1.06%
Consumer Cyclical	820.92	1.39%	-3.52%
Healthcare	1,556.29	1.25%	-0.56%
Consumer Non-Cyclicals	728.36	0.87%	1.65%
Transportation	1,647.00	0.85%	-0.90%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.18	-5 bps	-25 bps
UST 10Y Yield	3.48	-2 bps	-40 bps
Ind GB 10Y Yield	6.63	-6 bps	-30 bps
USDIDR	15,063.30	(51.55)	-423.65
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.56Tn	-3.60Tn
Government Bond Market (Rp)	+13.04Tn	36.33Tn

Commodities	Last	1W	YTD
WTI	81.69	2.02%	1.47%
Brent	87.63	2.76%	2.00%
CPO (Malaysia)	3,892.00	1.33%	-6.76%
Coal (New Castle)	363.50	-1.82%	-6.79%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,024.64	3.90%	0.60%
XIIT	IDX30	535.15	4.22%	0.78%
XIJI	JII	654.18	2.35%	1.00%
XISI	SMinfra18	346.34	3.41%	0.28%
XISR	SriKehati	441.73	4.21%	-0.14%
XIHD	IDXHIDIV20	599.69	4.46%	-0.87%
XIPI	Pefindo I-Grade	206.27	3.96%	-0.31%
XIML	MSCI Indo Large Cap	274.22	3.86%	-1.51%
XIID	IDX30	521.38	4.19%	0.65%
XIFE	FTSE ESG Indonesia	112.49	3.42%	-0.89%
XIIC	Consumer Related	999.61	2.78%	0.49%
XIIF	Rate Sensitive	507.20	3.49%	-1.33%
XISC	BUMN Stocks	709.13	3.61%	-0.67%
XISB	Sovereign Bonds	472.67	0.03%	2.43%

Conventional	Last	1W	YTD	
RDMP	Equity	865.27	3.83%	0.68%
RPCF	Balanced	2,514.26	2.95%	-0.82%
RDPO 2	Fixed Income	1,051.13	0.10%	0.29%
RDPU 2	Money Market	1,388.08	0.08%	0.22%

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	2023F	2023F	
1 RLQ45	21.0	52.4	10.8	11.4	4.43	14.3	4.0	1.14
2 XIIT	22.0	54.3	5.8	12.2	5.82	14.1	4.1	1.07
3 XISC	19.5	36.5	9.4	16.8	17.77	11.3	4.9	1.33
4 XISR	28.5	61.5	4.2	5.5	0.33	13.1	4.0	1.11
5 XIIF	20.2	52.8	14.9	7.2	4.85	14.9	3.7	1.29
6 XISI	42.6	23.9	17.6	15.6	0.34	11.2	4.8	1.04
7 XIPI	19.0	63.1	10.7	6.2	0.92	15.1	3.3	1.18
8 XIIC	35.0	37.6	20.6	3.7	3.14	15.0	3.4	1.09
9 XIHD	23.2	57.3	3.6	14.8	1.18	11.9	4.9	1.12
10 XIJI	43.2	0.7	25.8	27.4	3.00	13.0	4.5	1.10
11 XI ML	16.8	76.5	2.9	3.1	0.61	13.1	4.4	1.11
12 XIID	22.3	54.8	5.8	12.3	4.74	14.0	4.3	1.07
13 XIFE	27.2	59.1	5.8	7.3	0.63	12.5	4.2	1.14
Index								
IDX80	32.7	40.8	12.5	14.0		13.1	3.9	
JCI	29.6	36.9	14.8	18.7		13.0	3.2	

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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