

**Fed slows pace of rate hike, blowout US jobs reports, strong tech earnings**

Global stocks still maintained positive momentum in 2023, despite this week's corrections affecting emerging markets, helped by some upside surprises in US economic data and earnings reports, as well as encouraging signals from the Fed. A downshift in Fed's rate hikes to 25bps, from 50bps in the prior meeting last December, was widely expected. However, Fed Chair Powell's remark that disinflationary forces are taking shape, albeit still at an early stage, is viewed as more dovish than expected by markets, and this in turn led 10-yr US Treasury yield falling as low as 3.33% on Thursday, before yield went back up to 3.53% following Friday's release of a blowout US jobs report. The US nonfarm payrolls data of 517,000 additional jobs in January – the most since July 2022 – was nearly tripled consensus expectations (185,000), lowering unemployment rate to record low of 3.4%, while initial jobless claims data released in the previous day was lower than expected. In addition, ISM survey of non-manufacturing PMI revealed a big jump in services sector activity in January. The resilience US economy and its labor market sent US bond yields higher and stocks lower on Friday. Meanwhile, US Q4 earnings season still shows some positive surprises, particularly for the technology sector, which in turn sustained outperformances of US growth stocks (over value stocks) in 2023, particularly for the technology-heavy NASDAQ over DJIA and S&P500 stock indices.

In Indonesia, JCI was flattish (+0.18%) amid small foreign inflows of Rp0.56Tn this week, driven by technology stocks (+5.25%), apart from contribution from healthcare, consumer and property sectors, while coal mining sector corrected the most. Meanwhile, in bond market, continuing foreign inflows albeit smaller at Rp1.34Tn, further lowered 10-yr sovereign yields to 6.57% (-16bps).

**The Week Ahead – Indonesia GDP Growth Rate & Consumer Confidence**

The key economic data to focus next week includes Indonesia GDP Growth Rate (Mon 11:00), Euro Area Retail Sales (Mon 17:00), Fed Chair Powell Speech (Wed 12:40), Indonesia Consumer Confidence (Wed 10:00), US Initial Jobless Claims (Thu 20:30), US Michigan Consumer Sentiment Survey (Fri 22:00)

**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                  | 33,926.01 | -0.15% | 2.35%  |
| S&P 500               | 4,136.48  | 1.62%  | 7.73%  |
| Nasdaq                | 12,006.96 | 3.31%  | 14.72% |
| FTSE 100              | 7,901.80  | 1.76%  | 6.04%  |
| DAX                   | 15,476.43 | 2.15%  | 11.15% |
| Nikkei 225            | 27,509.46 | 0.46%  | 5.42%  |
| Hang Seng             | 21,660.47 | -4.53% | 9.50%  |
| Shanghai              | 3,263.41  | -0.04% | 5.64%  |
| MSCI World            | 2,820.73  | 1.25%  | 8.38%  |
| MSCI Emerging Markets | 1,038.71  | -1.19% | 8.61%  |

| JCI Sector Indices     | Last            | 1W           | YTD          |
|------------------------|-----------------|--------------|--------------|
| Technology             | 5,829.10        | 5.25%        | 12.92%       |
| Healthcare             | 1,576.83        | 3.11%        | 0.76%        |
| Consumer Non-Cyclicals | 756.48          | 2.85%        | 5.57%        |
| Consumer Cyclicals     | 840.99          | 1.62%        | -1.16%       |
| Property & Real Estate | 721.22          | 1.52%        | 1.40%        |
| Infrastructures        | 863.67          | 0.78%        | -0.57%       |
| Financials             | 1,433.57        | 0.37%        | 1.32%        |
| Basic Materials        | 1,266.36        | 0.30%        | 4.13%        |
| <b>JCI</b>             | <b>6,911.73</b> | <b>0.18%</b> | <b>0.89%</b> |
| Transportation         | 1,783.05        | -0.25%       | 7.29%        |
| Industrials            | 1,163.40        | -1.31%       | -0.93%       |
| Energy                 | 2,093.84        | -3.60%       | -8.15%       |

| Rates and Bonds  | Last      | 1W      | YTD     |
|------------------|-----------|---------|---------|
| UST 2Y Yield     | 4.29      | 9 bps   | -14 bps |
| UST 10Y Yield    | 3.52      | 1 bps   | -36 bps |
| Ind GB 10Y Yield | 6.57      | -16 bps | -36 bps |
| USDIDR           | 15,095.00 | 110.00  | -553.5  |
| CDS Indo 5Y      | 96.96     | 0.00    | 0.00    |

| Foreign Fund Flows          | 1W     | YTD     |
|-----------------------------|--------|---------|
| Equity Regular Market (Rp)  | 0.56Tn | -1.84Tn |
| Government Bond Market (Rp) | 1.34Tn | 49.42Tn |

| Commodities       | Last     | 1W      | YTD     |
|-------------------|----------|---------|---------|
| WTI               | 73.23    | -7.75%  | -9.04%  |
| Brent             | 79.94    | -7.75%  | -6.95%  |
| CPO (Malaysia)    | 3,851.00 | -1.31%  | -7.74%  |
| Coal (New Castle) | 245.00   | -31.10% | -37.18% |

| Funds and ETFs | Last                | 1W       | YTD    |        |
|----------------|---------------------|----------|--------|--------|
| <i>ETF</i>     | <i>Theme</i>        |          |        |        |
| RLQ45          | LQ45                | 1,034.05 | 0.13%  | 1.53%  |
| XIIT           | IDX30               | 537.81   | -0.25% | 1.28%  |
| XIJI           | JII                 | 639.57   | -0.93% | -1.26% |
| XISI           | SMInfra18           | 343.64   | -0.86% | -0.50% |
| XISR           | SriKehati           | 446.56   | 0.02%  | 0.96%  |
| XIHD           | IDXHIDIV20          | 597.61   | -1.09% | -1.21% |
| XIPI           | Pefindo I-Grade     | 209.28   | -0.36% | 1.14%  |
| XIIML          | MSCI Indo Large Cap | 277.89   | -0.30% | -0.19% |
| XIID           | IDX30               | 524.71   | -0.05% | 1.29%  |
| XIFE           | FTSE ESG Indonesia  | 114.24   | 0.17%  | 0.65%  |
| XIIC           | Consumer Related    | 1,017.74 | 1.28%  | 2.31%  |
| XIIF           | Rate Sensitive      | 516.07   | 0.59%  | 0.40%  |
| XISC           | BUMN Stocks         | 715.82   | -0.10% | 0.26%  |
| XISB           | Sovereign Bonds     | 475.50   | 1.15%  | 3.04%  |

| Conventional |              |          |        |        |
|--------------|--------------|----------|--------|--------|
| RDMP         | Equity       | 866.31   | -0.17% | 0.80%  |
| RPCF         | Balanced     | 2,506.83 | -0.66% | -1.12% |
| RDPO 2       | Fixed Income | 1,052.94 | 0.07%  | 0.46%  |
| RDPU 2       | Money Market | 1,390.22 | 0.08%  | 0.37%  |

## 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           | 21.1                                  | 51.5           | 11.8          | 11.3        | 4.29  | 14.6    | 3.9            | 1.14        |
| 2 XIIT            | 21.3                                  | 53.1           | 8.5           | 12.4        | 4.68  | 14.4    | 4.2            | 1.07        |
| 3 XISC            | 19.5                                  | 38.9           | 9.9           | 16.2        | 15.42 | 11.4    | 5.0            | 1.33        |
| 4 XISR            | 28.3                                  | 61.9           | 4.4           | 5.1         | 0.27  | 13.3    | 4.2            | 1.11        |
| 5 XIIF            | 20.1                                  | 56.3           | 15.2          | 6.7         | 1.67  | 15.1    | 3.9            | 1.29        |
| 6 XISI            | 42.5                                  | 24.0           | 19.4          | 13.8        | 0.30  | 11.2    | 5.0            | 1.04        |
| 7 XIPI            | 18.8                                  | 63.4           | 10.6          | 5.8         | 1.34  | 15.3    | 3.5            | 1.18        |
| 8 XIIC            | 37.3                                  | 38.8           | 21.6          | 3.6         | -1.31 | 15.2    | 3.4            | 1.09        |
| 9 XIHD            | 21.2                                  | 60.8           | 2.7           | 14.7        | 0.54  | 12.0    | 5.0            | 1.12        |
| 10 XIJI           | 44.4                                  | 0.7            | 26.6          | 25.9        | 2.39  | 12.7    | 4.6            | 1.10        |
| 11 XI ML          | 16.6                                  | 77.5           | 2.8           | 2.6         | 0.51  | 13.1    | 4.6            | 1.11        |
| 12 XIID           | 21.0                                  | 53.2           | 8.4           | 12.2        | 5.31  | 14.0    | 4.5            | 1.07        |
| 13 XIFE           | 27.4                                  | 59.6           | 5.9           | 6.5         | 0.58  | 12.7    | 4.3            | 1.14        |
| <b>Index</b>      |                                       |                |               |             |       |         |                |             |
| IDX80             | 33.5                                  | 41.0           | 12.6          | 12.9        |       | 13.6    | 3.6            |             |
| JCI               | 30.2                                  | 37.6           | 15.0          | 17.1        |       | 13.7    | 3.4            |             |

**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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