

Walmart's & Home Depot's dim predictions, PCE inflation reversed course

Global markets' sagging momentum continued as stocks and bonds dropped across developed and emerging markets this week, driven by renewed inflation and growth fears. Tuesday's profit warnings by two major US retailers, Walmart and Home Depot, and Friday's release of stronger than expected PCE inflation, triggered broad US stock markets' sell-offs that sent 10-year US Treasury yields to their highest level since November 2022. Walmart and Home Depot forecast full-year 2023 earnings will be below consensus estimates as tight spending by consumers and product price rises by manufacturers could pressure their profit margins. US stocks dropped again on Friday when US Personal Consumption Expenditure (PCE) Price Index data was released. Core PCE inflation, which is the Fed's preferred measure for tracking inflation, accelerated to 4.7% YoY; 0.6% MoM in January, from 4.6% and 0.4% in December, respectively, surpassing consensus forecasts (4.3%). This was the highest monthly inflation since August. The headline PCE Price Index rose 0.6% on the month and 5.4% on the year. Meanwhile, minutes from most recent FOMC meeting on 1st February showed that Fed officials believe rate hikes will continue to be necessary and they need to see further evidence of a broad easing in price pressures before they can conclude inflation is on a sustainable downward path. In the US bond market, 2-year US Treasury yields rose to 4.81% (+20bps), its highest level since 2006, while 10-year yields rose to 3.95% (+13bps), albeit still below its recent high of 4.21% in October 2022.

In Indonesia, JCI modestly corrected (-0.57%) amid marginal foreign outflows of Rp0.14Tn this week, with the technology sector impacted the most by Fed rate hike and inflation fears, followed by bank stocks. In the bond market, 10-year yields also climbed slightly to 6.79% (+6bps).

The Week Ahead – Indonesia Inflation, Manufacturing PMIs for China, US

The key economic data to focus next week includes US Durable Goods Orders (Mon 20:30), China Caixin and NBS Manufacturing PMIs (Wed 08:30), Indonesia Inflation Rate (Wed 11:00), US ISM Manufacturing PMI (Wed 22:00), EU Inflation Rate (Thu 17:00), US Jobless Claims (Thu 20:30), US ISM Services PMI (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 XIIM (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	32,816.92	-2.99%	-1.00%
S&P 500	3,970.04	-2.67%	3.40%
Nasdaq	11,394.94	-3.33%	8.87%
FTSE 100	7,878.66	-1.57%	5.73%
DAX	15,209.74	-1.76%	9.24%
Nikkei 225	27,453.48	-0.22%	5.21%
Hang Seng	20,010.04	-3.43%	1.16%
Shanghai	3,267.16	1.34%	5.76%
MSCI World	2,706.91	-2.62%	4.00%
MSCI Emerging Markets	971.87	-2.76%	1.62%

JCI Sector Indices	Last	1W	YTD
Transportation	1,909.29	3.67%	14.88%
Consumer Cyclical	848.83	0.52%	-0.24%
Industrials	1,155.94	0.07%	-1.57%
Infrastructures	865.08	-0.02%	-0.41%
Property & Real Estate	688.65	-0.24%	-3.18%
Energy	2,072.52	-0.47%	-9.08%
JCI	6,856.58	-0.57%	0.09%
Consumer Non-Cyclicals	752.10	-0.94%	4.96%
Basic Materials	1,238.38	-0.98%	1.83%
Healthcare	1,593.69	-1.36%	1.83%
Financials	1,404.91	-1.59%	-0.71%
Technology	5,449.20	-2.93%	5.56%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.81	20 bps	38 bps
UST 10Y Yield	3.95	13 bps	7 bps
Ind GB 10Y Yield	6.79	6 bps	-14 bps
USDIDR	15,265.00	99.00	-372.5
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.14Tn	0
Government Bond Market (Rp)	-0.04Tn	43.88Tn

Commodities	Last	1W	YTD
WTI	76.45	0.16%	-5.04%
Brent	83.16	0.19%	-3.20%
CPO (Malaysia)	4,202.00	1.72%	0.67%
Coal (New Castle)	210.10	-1.82%	-46.13%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,029.03	-0.73%	1.03%
XIIT	IDX30	534.75	-0.74%	0.70%
XIJI	JII	643.40	0.67%	-0.66%
XISI	SMinfra18	346.71	0.49%	0.39%
XISR	SriKehati	447.02	-0.05%	1.06%
XIHD	IDXHIDIV20	606.48	0.74%	0.26%
XIPI	Pefindo I-Grade	210.19	-0.33%	1.58%
XIIM	MSCI Indo Large Cap	278.15	-0.31%	-0.10%
XIID	IDX30	520.95	-0.82%	0.56%
XIFE	FTSE ESG Indonesia	113.65	-0.56%	0.13%
XIIC	Consumer Related	1,008.64	-0.70%	1.40%
XIIF	Rate Sensitive	508.10	-1.26%	-1.15%
XISC	BUMN Stocks	710.40	-1.16%	-0.50%
XISB	Sovereign Bonds	467.48	-0.53%	1.31%

Conventional	Last	1W	YTD	
RDMP	Equity	862.13	-0.55%	0.32%
RPCF	Balanced	2,521.15	0.29%	-0.55%
RDPO 2	Fixed Income	1,056.12	0.10%	0.76%
RDPU 2	Money Market	1,393.26	0.07%	0.59%

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	21.4	51.5	11.9	11.1	4.15	14.5	3.9	1.14
2 XIIT	21.6	53.0	8.6	12.3	4.53	14.2	4.2	1.07
3 XISC	19.9	39.9	9.5	15.5	15.13	11.4	5.2	1.33
4 XISR	28.8	61.6	4.4	5.0	0.19	13.2	4.4	1.11
5 XIIF	20.9	56.0	14.6	6.3	2.09	14.9	4.0	1.29
6 XISI	42.7	23.9	19.5	13.8	0.22	11.2	5.2	1.04
7 XIPI	19.6	63.3	10.7	5.4	1.08	15.2	3.7	1.18
8 XIIC	36.9	37.7	20.5	3.3	1.60	15.0	3.6	1.09
9 XIHD	21.8	59.9	2.7	15.2	0.46	12.0	5.0	1.12
10 XIJI	44.3	0.8	26.6	25.5	2.86	12.9	4.3	1.10
11 XI ML	16.9	77.2	2.7	2.7	0.43	13.0	4.7	1.11
12 XIID	21.3	53.2	8.4	12.1	4.99	13.9	4.5	1.07
13 XIFE	27.1	59.9	5.9	6.7	0.49	12.7	4.4	1.14
Index								
IDX80	33.4	41.1	12.8	12.7		13.6	3.4	
JCI	30.4	37.6	15.1	16.9		13.7	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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