

Resilient US economy, persistent inflation pushed yields up, stocks down

Global stock markets struggled to maintain positive momentum this week after US economic data releases showed a picture of persistent inflation and resilient economy. In turn, this fueled concerns the Fed may extend its rate-hiking cycle longer than expected. US January CPI inflation rate of 6.4% YoY was lower than in December (6.5%) but it was higher than consensus expectation of 6.2%. The monthly inflation of 0.5% MoM in January was a significant pick up vs. a revised 0.1% rise in December. The core inflation rate eased to 5.6% YoY (from 5.7%) but this rate was also higher than expected (5.5%). Subsequent producer prices inflation data surprised on the upside with PPI of 0.7% MoM (previous: -0.2%) and core PPI of 0.5% (previous: 0.3%), both were above consensus expectations of 0.4% and 0.3%, respectively. Meanwhile, US retail sales in January rebounded strongly with 3% MoM rise, after two consecutive monthly declines, also above consensus expectation of 1.8%. This data, coupled with a blowout jobs report in the prior week, paints a picture of a strong US economy which raises question if the Fed need to do more, thus adding upside risk to the Fed's tightening path. As a result, market expectations for the Fed funds rate has shifted higher this month to a terminal rate of 5.25% in July, from a previous peak of around 4.9%. In the bond market, 2-yr and 10-yr US Treasury yields rose to 4.62% and 3.82%, or increases of 9bps and 7bps, respectively. In the week ahead, market's focus may be on the release of Personal Consumption Expenditures (PCE) Price Index, which is the Fed's preferred measure for tracking inflation. Consensus expects Core PCE inflation of 0.4% MoM in January (December: 0.3% MoM; 4.4% YoY).

In Indonesia, JCI was flattish (+0.22%) amid a small foreign outflows of Rp0.98Tn this week, driven by a rebound in technology, infrastructure, consumer cyclicals and coal mining sectors, while property and basic materials sectors corrected the most. In the bond market, foreign investor flows reversed to an outflows of Rp4.43Tn, which pushed 10-yr yields up to 6.73% (+6bps)..

The Week Ahead – FOMC Minutes, US PCE Price Index, Personal Spending

The key economic data to focus next week includes FOMC Minutes (Thu 02:00), US Initial Jobless Claims (Thu 20:30), US PCE Price Index (Fri 20:30), US Personal Income & Spending (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	33,826.69	-0.13%	2.05%
S&P 500	4,079.09	-0.28%	6.24%
Nasdaq	11,787.27	0.59%	12.62%
FTSE 100	8,004.36	1.55%	7.42%
DAX	15,482.00	1.14%	11.19%
Nikkei 225	27,513.13	-0.57%	5.44%
Hang Seng	20,719.81	-2.22%	4.74%
Shanghai	3,224.02	-1.12%	4.36%
MSCI World	2,779.88	-0.14%	6.81%
MSCI Emerging Markets	999.42	-1.41%	4.50%

JCI Sector Indices	Last	1W	YTD
Technology	5,613.44	4.27%	8.74%
Infrastructures	865.21	1.67%	-0.39%
Healthcare	1,615.74	1.57%	3.24%
Consumer Cyclicals	844.41	1.26%	-0.76%
Transportation	1,841.68	0.82%	10.82%
Energy	2,082.24	0.34%	-8.66%
JCI	6,895.71	0.22%	0.66%
Consumer Non-Cyclicals	759.27	0.10%	5.96%
Financials	1,427.65	-0.02%	0.90%
Industrials	1,155.18	-0.25%	-1.63%
Basic Materials	1,250.68	-1.61%	2.84%
Property & Real Estate	690.28	-1.98%	-2.95%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.62	9 bps	19 bps
UST 10Y Yield	3.82	7 bps	-6 bps
Ind GB 10Y Yield	6.73	6 bps	-20 bps
USDIDR	15,166.00	(21.75)	-350.75
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.98Tn	-0.13Tn
Government Bond Market (Rp)	-4.43Tn	45.14Tn

Commodities	Last	1W	YTD
WTI	76.33	-4.30%	-5.19%
Brent	83.00	-3.92%	-3.39%
CPO (Malaysia)	4,131.00	5.09%	-1.03%
Coal (New Castle)	214.00	-1.83%	-45.13%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,036.64	0.08%	1.78%
XIIT	IDX30	538.73	0.10%	1.45%
XIJI	JII	639.10	-0.49%	-1.33%
XISI	SMinfra18	345.04	-0.90%	-0.10%
XISR	SriKehati	447.24	-1.05%	1.11%
XIHD	IDXHIDIV20	602.01	-0.19%	-0.48%
XIPI	Pefindo I-Grade	210.89	-0.43%	1.92%
XIIML	MSCI Indo Large Cap	279.03	-0.50%	0.21%
XIID	IDX30	525.24	0.11%	1.39%
XIFE	FTSE ESG Indonesia	114.29	-0.78%	0.70%
XIIC	Consumer Related	1,015.76	-0.88%	2.11%
XIIF	Rate Sensitive	514.59	-0.23%	0.11%
XISC	BUMN Stocks	718.72	0.19%	0.67%
XISB	Sovereign Bonds	469.96	-0.28%	1.84%

Conventional	Last	1W	YTD	
RDMP	Equity	866.87	-0.41%	0.87%
RPCF	Balanced	2,513.74	-0.53%	-0.84%
RDPO 2	Fixed Income	1,055.05	0.10%	0.66%
RDPU 2	Money Market	1,392.30	0.08%	0.52%

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	20.7	52.0	11.8	11.2	4.28	14.6	4.0	1.14
2 XIIT	20.8	53.5	8.6	12.4	4.68	14.3	4.3	1.07
3 XISC	19.3	40.1	9.6	15.5	15.51	11.5	5.2	1.33
4 XISR	27.9	62.5	4.4	5.0	0.22	13.3	4.3	1.11
5 XIIF	20.1	56.6	14.7	6.6	2.14	15.0	4.0	1.29
6 XISI	42.1	24.6	19.5	13.7	0.24	11.3	5.2	1.04
7 XIPI	18.3	64.3	10.5	5.8	1.11	15.3	3.6	1.18
8 XIIC	36.2	38.0	20.4	3.6	1.71	15.2	3.6	1.09
9 XIHD	20.7	61.2	2.7	15.1	0.33	12.0	5.1	1.12
10 XIJI	44.1	0.8	26.8	25.8	2.41	12.8	4.6	1.10
11 XI ML	16.0	78.0	2.8	2.7	0.45	13.1	4.7	1.11
12 XIID	20.5	53.7	8.5	12.2	5.21	14.0	4.6	1.07
13 XIFE	26.7	60.3	5.9	6.6	0.59	12.7	4.4	1.14
Index								
IDX80	33.1	41.3	12.6	12.9		13.7	3.4	
JCI	30.1	37.9	15.0	17.0		13.9	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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