

Banking sector on edge despite liquidity pledge, US inflation moderating

Global stock markets ended mixed in a choppy week as US stocks managed to rebound while outperforming DM equities in Europe and Japan corrected amid perceived banking sector instability in some segments of the US and European banking industries. Shares of US midsize lender First Republic Bank, which have a focus on the tech sector albeit more modestly than failed Silicon Valley Bank, remained under pressures despite US\$30 bn deposit pledge from major banks. In Europe, troubled Swiss banking giant Credit Suisse (CS) received emergency liquidity from Switzerland's central bank amid talk of its sale to rival bank UBS, which on Sunday reportedly offered to buy the bank for up to \$1 bn (\$7 bn less than CS's market value at Friday's close) but it is unclear if such low valuation will be accepted. The Financial Stability Board included CS in its 2022 list of 30 Global Systemically Important Banks, thus CS is an important bank for stability of the global financial sector. Meanwhile, positive news this week came from Tuesday's release of US headline CPI inflation rate, which moderated to 6.0% in February (January: 6.4%) albeit in line with consensus expectation, which helped this week's recovery of the US stock indices. Jitters in the banking sector helped pull back the 10-yr US Treasury yields to 3.44% (-27bps) while the 2-yr yields fell even steeper by 75bps to 3.85%. In the week ahead, investors focus will be Wednesday's Fed interest rate decision, which is now expected to raise rate by only 25bps (with some even expecting Fed will held rate steady), in contrast to market's expectation of a 50bps rate hike prior to US banking sector turmoil.

In Indonesia, JCI corrected (-1.29%) amid foreign outflows of Rp1.75Tn. Except for healthcare, all sector indices corrected with technology and basic materials as the worst performers. In bond market, 10-yr yields remained stable at 6.95% amid foreign inflows of Rp5.69Tn and an IDR/USD exchange rate recovery.

The Week Ahead – Fed Rate Decision and FOMC Economic Projections

The key economic data to focus next week are ECB President Lagarde Speech (Mon 21:00), Fed Rate Decision and FOMC Economic Projections (Thu 01:00), US Initial Jobless Claims (Thu 19:30), US Durable Goods Orders (Fri 19:30).

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	31,861.98	-0.15%	-3.88%
S&P 500	3,916.64	1.43%	2.01%
Nasdaq	11,630.52	4.41%	11.12%
FTSE 100	7,335.40	-5.33%	-1.56%
DAX	14,768.20	-4.28%	6.07%
Nikkei 225	27,333.79	-2.88%	4.75%
Hang Seng	19,518.59	1.03%	-1.33%
Shanghai	3,250.55	0.63%	5.22%
MSCI World	2,656.19	-0.05%	2.06%
MSCI Emerging Markets	951.56	-0.39%	-0.50%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,562.97	1.22%	-0.13%
JCI	6,678.24	-1.29%	-2.52%
Consumer Non-Cyclicals	717.84	-1.35%	0.18%
Industrials	1,151.76	-1.57%	-1.92%
Energy	2,013.92	-1.77%	-11.65%
Financials	1,364.90	-2.06%	-3.54%
Property & Real Estate	664.83	-2.49%	-6.53%
Infrastructures	808.28	-2.83%	-6.95%
Transportation	1,744.59	-3.84%	4.97%
Consumer Cyclical	795.52	-4.15%	-6.51%
Basic Materials	1,125.89	-4.35%	-7.42%
Technology	5,023.90	-6.24%	-2.68%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.85	-75 bps	-58 bps
UST 10Y Yield	3.44	-27 bps	-44 bps
Ind GB 10Y Yield	6.95	-1 bps	2 bps
USDIDR	15,374.00	(128.55)	-35.95
CDS Indo 5Y	106.93	14.85	9.97

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.75Tn	-2.89Tn
Government Bond Market (Rp)	+5.69Tn	+39.67Tn

Commodities	Last	1W	YTD
WTI	66.34	-13.48%	-17.60%
Brent	72.97	-11.85%	-15.06%
CPO (Malaysia)	3,920.00	-4.23%	-6.09%
Coal (New Castle)	173.00	-3.89%	-55.64%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,004.94	-1.25%	-1.33%
XIIT	IDX30	524.31	-0.91%	-1.26%
XIJI	JII	617.54	-0.82%	-4.66%
XISI	SMInfra18	335.66	-2.28%	-2.81%
XISR	SriKehati	442.45	-0.62%	0.03%
XIHD	IDXHIDIV20	608.14	-0.39%	0.53%
XIPI	Pefindo I-Grade	206.30	-0.97%	-0.30%
XIIML	MSCI Indo Large Cap	275.49	-0.40%	-1.06%
XIID	IDX30	510.17	-0.96%	-1.52%
XIFE	FTSE ESG Indonesia	110.68	-1.22%	-2.48%
XIIC	Consumer Related	975.33	-1.19%	-1.95%
XIIF	Rate Sensitive	492.90	-1.49%	-4.11%
XISC	BUMN Stocks	688.28	-1.98%	-3.59%
XISB	Sovereign Bonds	467.84	0.33%	1.38%

Conventional				
RDMP	Equity	854.23	-0.27%	-0.60%
RPCF	Balanced	2,522.72	0.17%	-0.49%
RDPO 2	Fixed Income	1,058.57	0.10%	1.00%
RDPU 2	Money Market	1,395.80	0.08%	0.78%

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	52.7	11.1	11.2	4.11	14.0	3.9	1.14
2 XIIT	21.2	54.1	7.9	12.3	4.48	13.7	4.2	1.07
3 XISC	18.7	40.9	7.8	14.3	18.37	11.3	5.2	1.33
4 XISR	28.7	60.1	4.0	5.3	1.87	13.0	4.4	1.11
5 XIIF	20.9	56.8	12.7	6.7	2.99	14.5	4.2	1.29
6 XISI	41.9	25.2	16.9	15.6	0.43	11.1	5.3	1.04
7 XIPI	19.8	64.0	9.7	4.8	1.66	14.8	3.8	1.18
8 XIIC	36.4	39.0	20.0	2.0	2.47	14.6	3.8	1.09
9 XIHD	21.3	59.4	2.5	15.9	0.84	11.9	4.8	1.12
10 XIJI	44.5	1.3	24.8	26.5	2.89	12.5	3.9	1.10
11 XIML	16.9	77.7	2.4	2.7	0.36	12.9	4.6	1.11
12 XIID	21.3	54.0	7.9	12.3	4.40	13.5	4.4	1.07
13 XIFE	25.7	60.8	5.3	7.1	1.09	12.4	4.3	1.14
Index								
IDX80	32.9	42.3	11.8	12.9		13.1	3.6	
JCI	30.2	38.5	13.9	17.3		13.2	4.6	

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	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Devandra Harahap	Institutional Marketing	devan.harahap@ipc.co.id	Ext. 2315	0856-1167-750
Dewi Rijanti Suherman	Institutional Marketing	dewi.suherman@ipc.co.id	Ext. 2313	0812-9665-7019

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