

**Bond yields dropped as Fed nears policy pause, banking turmoil continues**

Global markets were mostly up during another choppy week as Fed's meeting and global banking sector instability led to a shift in market expectations of Fed rate hikes. The market's volatility is caused by recession worries as Fed lowered GDP growth forecasts, on one hand, and hopes of Fed close to a policy pause, on the other hand. Fed raised rates by 0.25% this week, which is as expected, and maintained its outlook for peak Fed funds rate of 5.1%, implying one more rate hike of 0.25% can be expected. However, Fed statement shifted to a softer tone on rate hikes, indicating it may be nearing the end of rate hikes, which was in contrast to Fed Chair Powell's hawkish testimony to Congress only two weeks earlier. With Fed acknowledging tensions in the banking system have tightened credit conditions and may weigh on the economy, market expectations have shifted again to a forecast of no further rate hikes and the Fed start cutting rate as early as in its July meeting, according to CME FedWatch Tool, which analyzes the probabilities of changes to the Fed rate. Correspondingly, the 2-year and 10-year US Treasury yields dropped for the third consecutive weeks to 3.77% and 3.37%, respectively, as markets are now pricing-in Fed funds rate to be cut to 4.0% by the end of 2023, from a 4.75- 5.0% range at present. In the week ahead, market's focus will likely on Friday's release of the February US Core PCE Price Index data, which is the Fed's preferred inflation metrics, with a consensus expectation for an inflation of 0.4% MoM (versus a high 0.6% in January).

In Indonesia, JCI gained 1.26% this week amid foreign inflows into the stock and bond markets (Rp2.38Tn and Rp7.54Tn, respectively), and strengthening of the Rupiah currency. Basic materials, property and banking sectors advanced the most while healthcare and energy sectors corrected the most this week.

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

The key economic data to focus next week are US CB Consumer Confidence (Tue 21:00), US Initial Jobless Claims (Thu 19:30), China NBS Manufacturing and Non-Manufacturing PMIs (Fri 08:30), EU Inflation Rate (Fri 16:00), US Personal Consumption Expenditures (PCE) Price Index, US Personal Spending & Personal Income Growth (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 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	32,237.53	1.18%	-2.74%
S&P 500	3,970.99	1.39%	3.42%
Nasdaq	11,823.96	1.66%	12.97%
FTSE 100	7,405.45	0.95%	-0.62%
DAX	14,957.23	1.28%	7.42%
Nikkei 225	27,385.25	0.19%	4.95%
Hang Seng	19,915.68	2.03%	0.68%
Shanghai	3,265.65	0.46%	5.71%
MSCI World	2,692.55	1.37%	3.45%
MSCI Emerging Markets	972.17	2.17%	1.65%

JCI Sector Indices	Last	1W	YTD
Basic Materials	1,154.73	2.56%	-5.05%
Property & Real Estate	677.58	1.92%	-4.73%
Financials	1,390.07	1.84%	-1.76%
Transportation	1,773.55	1.66%	6.72%
Consumer Non-Cyclicals	728.32	1.46%	1.64%
<b>JCI</b>	<b>6,762.25</b>	<b>1.26%</b>	<b>-1.29%</b>
Consumer Cyclical	801.84	0.79%	-5.77%
Technology	5,026.10	0.04%	-2.63%
Industrials	1,151.67	-0.01%	-1.93%
Infrastructures	806.17	-0.26%	-7.19%
Energy	1,995.06	-0.94%	-12.48%
Healthcare	1,540.35	-1.45%	-1.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.77	-8 bps	-66 bps
UST 10Y Yield	3.37	-7 bps	-51 bps
Ind GB 10Y Yield	6.84	-11 bps	-9 bps
USDIDR	15,166.05	(207.95)	-164.5
CDS Indo 5Y	105.91	-1.02	8.95

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.38Tn	-0.51Tn
Government Bond Market (Rp)	+7.54Tn	41.98Tn

Commodities	Last	1W	YTD
WTI	69.20	4.31%	-14.05%
Brent	74.99	2.77%	-12.71%
CPO (Malaysia)	3,512.00	-10.41%	-15.86%
Coal (New Castle)	175.35	1.36%	-55.04%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,031.02	2.59%	1.23%
XIIT	IDX30	537.37	2.49%	1.20%
XIJI	JII	621.07	0.57%	-4.11%
XISI	SMInfra18	339.42	1.12%	-1.72%
XISR	SriKehati	455.48	2.94%	2.97%
XIHD	IDXHIDIV20	623.89	2.59%	3.13%
XIPI	Pefindo I-Grade	213.97	3.72%	3.41%
XIIM	MSCI Indo Large Cap	285.61	3.68%	2.58%
XIID	IDX30	522.51	2.42%	0.87%
XIFE	FTSE ESG Indonesia	113.70	2.73%	0.18%
XIIC	Consumer Related	1,000.30	2.56%	0.56%
XIIF	Rate Sensitive	506.16	2.69%	-1.53%
XISC	BUMN Stocks	698.62	1.50%	-2.15%
XISB	Sovereign Bonds	471.36	0.75%	2.15%

Conventional				
RDMP	Equity	866.12	2.24%	0.78%
RPCF	Balanced	2,568.27	2.24%	1.31%
RDPO 2	Fixed Income	1,060.70	0.20%	1.20%
RDPU 2	Money Market	1,397.89	0.08%	0.93%

## 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 <b>RLQ45</b>	20.5	52.9	11.2	10.7	4.68	14.3	3.9	1.14
2 XIIT	20.7	54.4	7.9	11.9	5.04	14.0	4.1	1.07
3 <b>XISC</b>	18.4	41.5	7.0	13.9	19.11	11.4	5.2	1.33
4 XISR	28.4	61.5	4.1	5.2	0.89	13.3	4.4	1.11
5 <b>XIIF</b>	20.5	57.2	12.6	6.4	3.32	14.9	4.1	1.29
6 XISI	41.2	25.4	17.3	15.0	1.08	11.3	5.3	1.04
7 <b>XIPI</b>	19.3	64.3	9.8	4.8	1.84	15.2	3.8	1.18
8 XIIC	35.8	39.5	19.9	2.0	2.75	15.0	3.7	1.09
9 <b>XIHD</b>	21.1	60.2	2.6	15.1	1.06	12.1	4.7	1.12
10 XIJI	44.7	1.2	25.7	26.1	2.27	12.6	3.9	1.10
11 <b>XIML</b>	16.4	77.3	2.4	2.5	1.33	13.2	4.5	1.11
12 XIID	20.8	54.3	8.0	11.9	5.06	13.8	4.3	1.07
13 <b>XIFE</b>	21.6	56.6	6.5	8.9	6.49	12.7	4.2	1.14
<b>Index</b>								
<b>IDX80</b>	32.4	43.1	12.0	12.6		13.1	3.6	
<b>JCI</b>	0.0	0.0	0.0	0.0		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

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