

**Stocks rebound as a Fed official rules out return to aggressive rate hikes**

Global markets rebounded from a string of three consecutive weekly losses and gained nearly 2% this week after comments from a Fed official that rules out his support for a return to aggressive Fed rate hikes. Atlanta Fed president Raphael Bostic stated his still support only a quarter-point rate hike at Fed's upcoming policy meeting on March 21-22 despite hot inflation data in the previous week and he expects the Fed could be in a position to pause by mid to late summer. Bostic's remarks eased market worries that the Fed could be forced to revert to more aggressive 50 basis point rate hikes following strong US jobs reports and inflation reversal in January. Given inflationary pressures, market expectations for Fed rate hikes has increased since the start of the year with forecasts calling for three additional hikes in 2023 during March, May and June FOMC meetings that would bring Fed funds rate to around 5.5% (from 4.50-4.75% in February). At this level, the Fed rate would converge with core inflation rate (of 5.6% as of January 2023), supporting possibility for Fed to pause rate hikes by mid-2023. Meanwhile, US economic data were mixed with a weak overall durables goods orders growth of -4.5% MoM in January, ongoing contraction in manufacturing activity, an expansion in services sector's activity (based on ISM PMI surveys for February) and a surprisingly strong 8.1% jump in January's pending home sales. The weekly jobless claims of 190,000 were also slightly better than expected. In the bond market, 10-year US Treasury yields peaked at 4.09% before easing to 3.96% following Bostic's comments.

In Indonesia, JCI slightly corrected (-0.63%) amid foreign outflows of Rp1.55Tn this week, with industrial sector performing best on the back of strong earnings results from Astra International group (ASII, UNTR) while defensive consumer and healthcare sectors declined the most. In the bond market, 10-year yields climbed to 6.98% (+19bps) amid increasing foreign outflows of Rp1.56Tn.

**The Week Ahead – Fed Chair Powell Testimony, US Jobs Reports**

The key economic data to focus next week includes EU Retail Sales (Mon 17:00), Fed Chair Powell Testimony (Tue 22:00), ECB President Lagarde Speech (Wed 17:00), US ADP Employment Change (Wed 20:15), US Initial Jobless Claims (Thu 20:30), US Non-Farm Payrolls and Unemployment Rate (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	33,390.97	1.75%	0.74%
S&P 500	4,045.64	1.90%	5.37%
Nasdaq	11,689.01	2.58%	11.68%
FTSE 100	7,947.11	0.87%	6.65%
DAX	15,578.39	2.42%	11.88%
Nikkei 225	27,927.47	1.73%	7.02%
Hang Seng	20,567.54	2.79%	3.97%
Shanghai	3,328.39	1.87%	7.74%
MSCI World	2,757.97	1.89%	5.97%
MSCI Emerging Markets	988.03	1.66%	3.31%

JCI Sector Indices	Last	1W	YTD
Industrials	1,197.20	3.57%	1.95%
Energy	2,107.96	1.71%	-7.53%
Technology	5,455.78	0.12%	5.69%
Financials	1,404.95	0.00%	-0.71%
Property & Real Estate	687.20	-0.21%	-3.38%
Consumer Cyclical	845.43	-0.40%	-0.64%
<b>JCI</b>	<b>6,813.64</b>	<b>-0.63%</b>	<b>-0.54%</b>
Basic Materials	1,218.98	-1.57%	0.24%
Infrastructures	848.93	-1.87%	-2.27%
Healthcare	1,555.33	-2.41%	-0.62%
Consumer Non-Cyclicals	731.63	-2.72%	2.10%
Transportation	1,844.09	-3.41%	10.96%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.86	5 bps	43 bps
UST 10Y Yield	3.96	1 bps	8 bps
Ind GB 10Y Yield	6.98	19 bps	5 bps
USDIDR	15,278.00	13.00	-273.5
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.55Tn	-1.55Tn
Government Bond Market (Rp)	-1.56Tn	+42.13Tn

Commodities	Last	1W	YTD
WTI	79.85	4.45%	-0.82%
Brent	85.83	3.21%	-0.09%
CPO (Malaysia)	4,352.00	3.57%	4.26%
Coal (New Castle)	187.15	-10.92%	-52.01%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,019.67	-0.91%	0.12%
XIIT	IDX30	530.42	-0.81%	-0.11%
XIJI	JII	632.11	-1.76%	-2.41%
XISI	SMInfra18	347.59	0.25%	0.64%
XISR	SriKehati	442.63	-0.98%	0.07%
XIHD	IDXHIDIV20	608.19	0.28%	0.54%
XIPI	Pefindo I-Grade	206.76	-1.63%	-0.08%
XIIML	MSCI Indo Large Cap	274.71	-1.24%	-1.34%
XIID	IDX30	516.53	-0.85%	-0.29%
XIFE	FTSE ESG Indonesia	112.20	-1.27%	-1.14%
XIIC	Consumer Related	987.82	-2.06%	-0.70%
XIIF	Rate Sensitive	503.21	-0.96%	-2.10%
XISC	BUMN Stocks	707.02	-0.48%	-0.97%
XISB	Sovereign Bonds	464.72	-0.59%	0.71%

Conventional	Last	1W	YTD	
RDMP	Equity	856.55	-0.65%	-0.33%
RPCF	Balanced	2,518.33	-0.11%	-0.66%
RDPO 2	Fixed Income	1,057.51	0.13%	0.89%
RDPU 2	Money Market	1,394.73	0.11%	0.70%

**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	51.8	11.5	11.8	4.30	14.3	3.9	1.14
2 XIIT	20.9	53.3	8.1	13.0	4.69	14.0	4.1	1.07
3 XISC	19.7	39.6	9.4	16.2	15.12	11.3	5.3	1.33
4 XISR	28.5	61.0	4.8	5.5	0.27	13.0	4.4	1.11
5 XIIF	20.4	56.4	14.6	6.5	2.04	14.7	4.1	1.29
6 XISI	41.6	23.7	19.3	15.2	0.19	11.1	5.3	1.04
7 XIPI	19.3	63.6	10.4	5.6	1.05	14.9	3.8	1.18
8 XIIC	36.1	38.4	20.6	3.4	1.52	14.6	3.7	1.09
9 XIHD	21.0	59.7	2.6	16.4	0.27	11.9	4.8	1.12
10 XIJI	43.3	1.2	26.3	27.2	2.09	12.7	3.9	1.10
11 XIIML	16.4	77.7	2.6	2.9	0.44	12.8	4.7	1.11
12 XIID	20.6	53.6	8.0	12.8	5.12	13.7	4.4	1.07
13 XIFE	26.2	60.2	5.9	7.3	0.46	12.5	4.3	1.14
<b>Index</b>								
IDX80	32.7	41.3	12.5	13.5		13.5	3.4	
JCI	29.9	37.8	14.9	17.4		13.6	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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