

Signs of weakening US economic activity and its cooling labor market

Global stock markets closed mostly lower during a holiday-shortened trading week, after climbing for three consecutive weeks in the prior weeks, amid signs of slowing US economy and its labor market. US ISM Manufacturing & Services PMI data for March both showed a weakening economic activity in comparison to the prior month and were below consensus expectations, as also the factory orders data. US manufacturing activity fell back to a nearly three-year low while services sector activity still expanded but at a slower-than-expected pace. In the US labor market, data on private sector jobs growth (ADP Employment Change) and overall employment (Non Farm Payrolls) both still showed expansions but at a lower than expected growth pace. US private sector added 145,000 jobs in March (February: 261,000), below consensus expectation of 200,000. Non farm payrolls growth slowed to 236,000 (previously 326,000) although this data was released when markets were closed on Friday. Meanwhile, the likelihood for the Fed to raise rate by 25bps at its upcoming FOMC meeting in May, according to CME FedWatch Tool, has increased to 71% this week (prior week: 48%), amid a statement from a Fed official that expects the Fed funds rate to go above 5% and stay there. In the bond market, 10-yr yields initially fell to as low as 3.27% before it rose to 3.41% on Friday. In the week ahead, market will likely focus on the release of US inflation data for signs that recent moderation in the February inflation rates will extend into March with consensus forecasts for inflation rate of 0.3% MoM; 5.2% YoY in March (from 0.4% and 6.0%, respectively)

In Indonesia, JCI slightly corrected (-0.18%) despite foreign inflows of Rp2.22Tn. Except for energy, financial, and property sectors, most equity sectors declined, led by technology, healthcare, consumer goods and basic materials sectors. In bond market, foreign inflows remained robust at Rp4.89Tn (YTD 2023: Rp59Tn), in turn lowering 10-yr yields to 6.67% (-15bps).

The Week Ahead – Fed Speeches, US CPI & PPI Inflation, FOMC Minutes

The key economic data to focus next week are US Inflation Rate (Wed 19:30), FOMC Minutes (Thu 01:00), US Producer Price Index Inflation (Thu 19:30), US Initial Jobless Claims (Thu 19:30), US Retail Sales (Fri 19:30), Michigan Consumer Sentiment Survey (Fri 21:00),

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 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 | 33,485.29 | 0.63% | 1.02% |
| S&P 500 | 4,105.02 | -0.10% | 6.92% |
| Nasdaq | 12,087.96 | -1.10% | 15.49% |
| FTSE 100 | 7,741.56 | 1.44% | 3.89% |
| DAX | 15,597.89 | -0.20% | 12.02% |
| Nikkei 225 | 27,518.31 | -1.87% | 5.46% |
| Hang Seng | 20,331.20 | -0.34% | 2.78% |
| Shanghai | 3,327.65 | 1.67% | 7.72% |
| MSCI World | 2,790.38 | -0.04% | 7.21% |
| MSCI Emerging Markets | 987.07 | -0.32% | 3.21% |

| JCI Sector Indices | Last | 1W | YTD |
|------------------------|-----------------|---------------|---------------|
| Energy | 2,110.31 | 0.32% | -7.42% |
| Financials | 1,389.61 | 0.27% | -1.79% |
| Property & Real Estate | 687.00 | 0.02% | -3.41% |
| JCI | 6,792.77 | -0.18% | -0.84% |
| Industrials | 1,183.33 | -0.19% | 0.77% |
| Consumer Cyclical | 819.43 | -0.35% | -3.70% |
| Infrastructures | 802.66 | -0.76% | -7.60% |
| Transportation | 1,773.31 | -0.90% | 6.70% |
| Basic Materials | 1,156.25 | -2.32% | -4.92% |
| Consumer Non-Cyclical | 711.75 | -2.72% | -0.67% |
| Healthcare | 1,498.62 | -2.73% | -4.24% |
| Technology | 4,952.41 | -2.91% | -4.06% |

| Rates and Bonds | Last | 1W | YTD |
|------------------|-----------|---------|---------|
| UST 2Y Yield | 3.99 | -5 bps | -44 bps |
| UST 10Y Yield | 3.41 | -6 bps | -47 bps |
| Ind GB 10Y Yield | 6.67 | -15 bps | -26 bps |
| USDIDR | 14,939.00 | (29.65) | -569.85 |
| CDS Indo 5Y | 91.61 | 91.61 | -5.35 |

| Foreign Fund Flows | 1W | YTD |
|-----------------------------|---------|---------|
| Equity Regular Market (Rp) | +2.22Tn | +5.14Tn |
| Government Bond Market (Rp) | +4.89Tn | +59.0Tn |

| Commodities | Last | 1W | YTD |
|-------------------|----------|-------|---------|
| WTI | 80.46 | 6.29% | -0.06% |
| Brent | 85.12 | 6.55% | -0.92% |
| CPO (Malaysia) | 3,772.00 | 0.29% | -9.63% |
| Coal (New Castle) | 193.75 | 9.31% | -50.32% |

| Funds and ETFs | Last | 1W | YTD | |
|----------------|---------------------|----------|--------|--------|
| <i>ETF</i> | <i>Theme</i> | | | |
| RLQ45 | LQ45 | 1,037.71 | -0.01% | 1.89% |
| XIIT | IDX30 | 540.83 | 0.08% | 1.85% |
| XIJI | JII | 627.92 | -0.43% | -3.06% |
| XISI | SMInfra18 | 346.06 | 0.47% | 0.20% |
| XISR | SriKehati | 460.98 | 0.75% | 4.22% |
| XIHD | IDXHIDIV20 | 636.47 | 1.12% | 5.21% |
| XIPI | Pefindo I-Grade | 217.04 | 0.95% | 4.89% |
| XIIML | MSCI Indo Large Cap | 288.92 | 0.81% | 3.77% |
| XIID | IDX30 | 525.32 | 0.04% | 1.41% |
| XIFE | FTSE ESG Indonesia | 114.29 | 0.11% | 0.70% |
| XIIC | Consumer Related | 998.24 | -0.54% | 0.35% |
| XIIF | Rate Sensitive | 514.29 | 0.77% | 0.05% |
| XISC | BUMN Stocks | 713.37 | 0.88% | -0.08% |
| XISB | Sovereign Bonds | 475.75 | 0.71% | 3.10% |

| Conventional | Last | 1W | YTD | |
|--------------|--------------|----------|--------|-------|
| RDMP | Equity | 872.26 | -0.11% | 1.49% |
| RPCF | Balanced | 2,599.35 | 0.48% | 2.53% |
| RDPO 2 | Fixed Income | 1,062.47 | 0.08% | 1.37% |
| RDPU 2 | Money Market | 1,399.67 | 0.07% | 1.06% |

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 | 20.4 | 51.7 | 11.1 | 11.3 | 5.47 | 14.3 | 4.0 | 1.14 |
| 2 XIIT | 20.7 | 53.2 | 7.8 | 12.5 | 5.83 | 13.9 | 4.2 | 1.07 |
| 3 XISC | 17.8 | 40.1 | 6.5 | 14.8 | 20.84 | 11.3 | 5.4 | 1.33 |
| 4 XISR | 28.1 | 59.7 | 4.1 | 5.5 | 2.63 | 13.2 | 4.5 | 1.11 |
| 5 XIIF | 20.3 | 55.8 | 12.7 | 6.8 | 4.43 | 14.7 | 4.2 | 1.29 |
| 6 XISI | 41.1 | 24.4 | 17.4 | 15.7 | 1.56 | 11.2 | 5.5 | 1.04 |
| 7 XIPI | 19.2 | 62.6 | 9.9 | 5.0 | 3.30 | 15.1 | 3.8 | 1.18 |
| 8 XIIC | 35.8 | 38.6 | 20.0 | 2.1 | 3.52 | 14.8 | 3.8 | 1.09 |
| 9 XIHD | 20.7 | 58.3 | 2.5 | 15.9 | 2.57 | 12.0 | 4.9 | 1.12 |
| 10 XIJI | 43.8 | 1.3 | 25.5 | 27.2 | 2.15 | 12.7 | 4.1 | 1.10 |
| 11 XIML | 16.3 | 75.7 | 2.3 | 2.7 | 3.02 | 13.0 | 4.6 | 1.11 |
| 12 XIID | 14.5 | 37.1 | 5.5 | 8.7 | 34.22 | 13.7 | 4.4 | 1.07 |
| 13 XIFE | 21.5 | 55.4 | 6.5 | 9.4 | 7.34 | 12.6 | 4.4 | 1.14 |
| Index | | | | | | | | |
| IDX80 | 34.0 | 39.2 | 12.4 | 14.4 | | 12.4 | 4.4 | |
| JCI | 29.4 | 38.7 | 13.8 | 18.2 | | 13.5 | 4.4 | |

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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