

**Banking contagion concerns have receded, US core PCE inflation eased**

Global equity markets maintained their recovery momentum, climbing strongly for the third consecutive week with much reduced volatility, as concerns about banking sector instability eased. President Biden proposed new regulations for mid-sized banks that would impose more stringent capital, liquidity and stress test requirements to bring these banks more in line with regulation faced by US largest banks. US stocks were also boosted by positive news on inflation as the core PCE price index, the Fed's preferred inflation metrics, rose only 0.3% MoM in February (vs. 0.5% in January), below consensus expectation of 0.4%, while the headline PCE inflation decelerated to 5% YoY (from 5.3%). If sustained, this would bring US inflation to be in-line with the Fed's core PCE inflation target of 3.7% by the fourth quarter. The market has priced-in Fed funds rate has peaked with 51.6% probability of no rate hike in the upcoming Fed meeting in May and 48.4% probability of a 25bps hike, according to CME FedWatch Tool. In Europe, there is also good news as EU inflation rate eased to 6.9% in March (previously 8.5%), although the core inflation rate of 5.7% came in line with expectations. Meanwhile, in the bond market, US government bond yields rose, after falling for three consecutive weeks, with 10-yr yields at 3.49% (+11bps), although this is well below a recent peak of 4.07% on 2<sup>nd</sup> March. In the week ahead, markets will likely focus on data release of US non farm payroll growth for March, with consensus expecting a job growth of 238,000 (vs. 311,000 in February).

In Indonesia, JCI gained only modestly by 0.64% despite decent foreign inflows of Rp3.43Tn. Cyclical stocks in energy, industrials, consumer and basic materials sectors gained the most while defensive banking and healthcare stocks lagged. Meanwhile, large inflows into the bond market (Rp12.21Tn) marginally lowered 10-yr yields to 6.82% but strengthened the Rupiah currency significantly.

**The Week Ahead – US Non Farm Payrolls & Unemployment Rate**

The key economic data to focus next week are China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 21:00), US ISM Non Manufacturing PMI (Wed 21:00), US Initial Jobless Claims (Thu 19:30), US Non Farm Payrolls & Unemployment Rate (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	33,274.15	3.22%	0.38%
S&P 500	4,109.31	3.48%	7.03%
Nasdaq	12,221.91	3.37%	16.77%
FTSE 100	7,631.74	3.06%	2.42%
DAX	15,628.84	4.49%	12.25%
Nikkei 225	28,041.48	2.40%	7.46%
Hang Seng	20,400.11	2.43%	3.13%
Shanghai	3,272.86	0.22%	5.94%
MSCI World	2,791.44	3.67%	7.25%
MSCI Emerging Markets	990.28	1.86%	3.54%

JCI Sector Indices	Last	1W	YTD
Energy	2,103.64	5.44%	-7.72%
Industrials	1,185.57	2.94%	0.96%
Consumer Cyclical	822.32	2.55%	-3.36%
Basic Materials	1,183.75	2.51%	-2.66%
Technology	5,100.73	1.48%	-1.19%
Property & Real Estate	686.88	1.37%	-3.43%
Transportation	1,789.36	0.89%	7.67%
<b>JCI</b>	<b>6,805.28</b>	<b>0.64%</b>	<b>-0.66%</b>
Consumer Non-Cyclical	731.64	0.46%	2.10%
Infrastructures	808.84	0.33%	-6.88%
Healthcare	1,540.65	0.02%	-1.55%
Financials	1,385.83	-0.31%	-2.06%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.04	27 bps	-39 bps
UST 10Y Yield	3.47	10 bps	-41 bps
Ind GB 10Y Yield	6.82	-3 bps	-11 bps
USDIDR	14,968.65	(197.40)	-372.45
CDS Indo 5Y	95.06	-10.85	-1.90

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+3.43Tn	+2.92Tn
Government Bond Market (Rp)	+12.21Tn	+54.11Tn

Commodities	Last	1W	YTD
WTI	75.70	9.39%	-5.97%
Brent	79.89	6.53%	-7.01%
CPO (Malaysia)	3,761.00	7.09%	-9.89%
Coal (New Castle)	177.25	1.08%	-54.55%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,037.82	0.66%	1.90%
XIIT	IDX30	540.41	0.56%	1.77%
XIJI	JII	630.62	1.54%	-2.64%
XISI	SMinfra18	344.45	1.48%	-0.27%
XISR	SriKehati	457.53	0.45%	3.44%
XIHD	IDXHIDIV20	629.41	0.88%	4.04%
XIPI	Pefindo I-Grade	215.00	0.48%	3.91%
XIIM	MSCI Indo Large Cap	286.60	0.35%	2.94%
XIID	IDX30	525.09	0.49%	1.36%
XIFE	FTSE ESG Indonesia	114.16	0.41%	0.58%
XIIC	Consumer Related	1,003.70	0.34%	0.90%
XIIF	Rate Sensitive	510.37	0.83%	-0.71%
XISC	BUMN Stocks	707.15	1.22%	-0.95%
XISB	Sovereign Bonds	472.42	0.23%	2.38%

Conventional	Last	1W	YTD	
RDMP	Equity	873.20	0.82%	1.60%
RPCF	Balanced	2,586.98	0.73%	2.05%
RDPO 2	Fixed Income	1,061.58	0.08%	1.28%
RDPU 2	Money Market	1,398.75	0.06%	0.99%

## Summary of Investment Characteristics &amp; 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
<b>Index</b>								
IDX80	32.3	42.3	12.1	13.3		12.4	4.4	
JCI	29.7	38.4	14.1	17.8		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 &amp; Oil Mining, Plantation and Misc. Industries

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