

US CPI inflation moderating, producer prices fell for 1st time in 3 years

Global stock markets edged higher on encouraging news on US inflation amid softening consumer demand, which could provide conditions for the Fed to end its aggressive rate hike cycle. US CPI inflation eased to 0.1% MoM; 5.0% YoY in March, from 0.4% and 6.0% in prior month, respectively, better than consensus expectation, although core inflation rate of 4.0% and 5.6%, respectively, came as expected. A separate report on producer prices (PPI) inflation was even more positive as the PPI Index fell 0.5% MoM for the first time post the pandemic, lowering the annual inflation rate to 2.7% in March, from 4.9% in February. Signs of softening US economy is also seen from 1% drop in March retail sales, which marked the fourth decline out of the past five months. The market still expects Fed to hike rate one more time by 25bps to 5.00-5.25% range in May before lowering the rate by 50bps by the end of 2023. We view this scenario of a Fed pivot (policy change) in late 2023 as a positive catalyst for global stock markets despite economic downturn and expectations of earnings declines this year. However, the relatively muted stock market reaction to the inflation news indicates lingering rate fears and uncertainty as inflation rate is still a long way from the Fed's 2% long-term target and further progress may still be needed before the Fed can start easing its policy. In the bond market, 10-yr US Treasury yields rose 10bps to 3.52%, although it is still well below a recent peak of 4.07% in early March.

In Indonesia, JCI gained slightly by 0.38% amid a continuing foreign inflows of Rp4.68Tn. Healthcare, infrastructure and industrial stocks gained the most while energy, technology and consumer cyclical stocks corrected the most. In bond market, 10-year yields eased further to 6.64% (-3bps) amid sustained foreign inflows (+Rp2.90Tn), which also strengthened the local currency.

The Week Ahead – Fed Speeches, China GDP Growth, BI Rate Decision

The key economic data to focus next week are Indonesia Trade Balance (Mon 11:00), China GDP Growth Rate (Tue 09:00), BI Interest Rate Decision (Tue 14:30), US Initial Jobless Claims (Thu 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	33,886.47	1.20%	2.23%
S&P 500	4,137.64	0.79%	7.77%
Nasdaq	12,123.47	0.29%	15.83%
FTSE 100	7,871.91	1.68%	5.64%
DAX	15,807.50	1.34%	13.53%
Nikkei 225	28,493.47	3.54%	9.19%
Hang Seng	20,438.81	0.53%	3.32%
Shanghai	3,338.15	0.32%	8.06%
MSCI World	2,825.75	1.27%	8.57%
MSCI Emerging Markets	1,000.49	1.36%	4.61%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,514.22	1.04%	-3.24%
Infrastructures	810.24	0.94%	-6.72%
Industrials	1,193.85	0.89%	1.66%
Property & Real Estate	691.50	0.65%	-2.78%
Financials	1,398.00	0.60%	-1.20%
JCI	6,818.57	0.38%	-0.47%
Basic Materials	1,159.14	0.25%	-4.69%
Consumer Non-Cyclicals	710.59	-0.16%	-0.83%
Transportation	1,756.10	-0.97%	5.67%
Consumer Cyclical	808.98	-1.27%	-4.93%
Technology	4,850.11	-2.07%	-6.04%
Energy	2,037.51	-3.45%	-10.62%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.10	11 bps	-33 bps
UST 10Y Yield	3.52	10 bps	-37 bps
Ind GB 10Y Yield	6.64	-3 bps	-29 bps
USDIDR	14,782.55	(156.45)	-599.5
CDS Indo 5Y	88.17	-3.44	-8.79

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.68Tn	+9.82Tn
Government Bond Market (Rp)	+2.90Tn	+61.70Tn

Commodities	Last	1W	YTD
WTI	82.68	2.76%	2.70%
Brent	86.31	1.40%	0.47%
CPO (Malaysia)	3,702.00	-1.86%	-11.31%
Coal (New Castle)	188.00	-2.97%	-51.79%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,054.45	1.61%	3.53%
XIIT	IDX30	550.16	1.72%	3.60%
XIJI	JII	629.85	0.31%	-2.76%
XISI	SMInfra18	353.59	2.17%	2.38%
XISR	SriKehati	471.23	2.22%	6.53%
XIHD	IDXHIDIV20	648.11	1.83%	7.14%
XIPI	Pefindo I-Grade	221.98	2.28%	7.28%
XIIM	MSCI Indo Large Cap	296.24	2.53%	6.40%
XIID	IDX30	534.18	1.69%	3.12%
XIFE	FTSE ESG Indonesia	116.32	1.78%	2.49%
XIIC	Consumer Related	1,012.75	1.45%	1.81%
XIIF	Rate Sensitive	522.28	1.55%	1.61%
XISC	BUMN Stocks	720.09	0.94%	0.86%
XISB	Sovereign Bonds	476.29	0.11%	3.22%

Conventional				
RDMP	Equity	882.48	1.17%	2.68%
RPCF	Balanced	2,628.75	1.13%	3.69%
RDPO 2	Fixed Income	1,063.66	0.11%	1.48%
RDPU 2	Money Market	1,400.86	0.09%	1.14%

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	51.9	10.5	11.4	5.49	14.8	3.9	1.14
2 XIIT	20.9	53.0	7.2	12.6	6.40	14.2	4.1	1.07
3 XISC	18.2	40.4	6.2	14.6	20.63	11.8	5.1	1.33
4 XISR	23.8	49.7	3.2	4.6	18.73	13.6	4.4	1.11
5 XIIF	20.7	55.8	12.3	6.9	4.33	15.8	4.0	1.29
6 XISI	41.2	24.6	16.7	16.0	1.53	11.6	5.3	1.04
7 XIPI	19.4	62.7	9.5	4.9	3.52	16.0	3.7	1.18
8 XIIC	35.9	38.9	19.4	2.1	3.66	15.6	3.8	1.09
9 XIHD	21.0	58.0	2.4	16.1	2.52	12.3	4.7	1.12
10 XIJI	44.1	1.4	24.2	27.7	2.68	13.3	4.0	1.10
11 XI ML	16.8	75.5	2.1	2.7	2.98	13.5	4.4	1.11
12 XIID	21.2	53.4	7.3	12.7	5.45	14.5	4.3	1.07
13 XIFE	21.8	55.7	6.1	9.4	6.99	13.2	4.2	1.14
Index								
IDX80	33.7	39.9	12.4	14.1		12.6	4.5	
JCI	29.2	39.5	13.8	17.5		12.5	4.0	

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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