

US inflation rate easing as expected, looming debt-ceiling standoff

Global stocks went down as the debt-ceiling clock kept ticking. In the US market, talks between the Executive and Legislative on raising the US debt ceiling tentatively progressed and provided relief on the last day of the week, with gains mainly from tech sector on optimism about artificial intelligence. The Nasdaq Composite Index and S&P 500 closed at their highest levels since August 2022. This week's economic data were mostly positive: new home sales MoM 4.1% better than 3.3% consensus expectation, weekly jobless claims at 229k (cons.: 250k) and Monthly US PCE Price Index easing as expected on one side while the MoM pending home sales slowed at 0% (cons.: 0.5%) on the counter side. Given the easing inflation, released minutes of FOMC meeting revealed the Fed's leaning towards pausing rate hike, at least for the time being. In the Bond market, 10-yr US Treasury yields rose again to 3.81% (+14 bps) this week. In the week ahead, the conclusion of the debt ceiling discussion, with 5 June as deadline, will be most anticipated.

In Indonesia, JCI was flattish (-0.20%) despite foreign inflow (+Rp2.11Tn), driven by gains on consumer sectors: cyclicals and noncyclicals, transportations, and property and real estate. The lagging sectors were technology, energy, and basic materials. In the bond markets, 10 year yields were stable at 6.43% (-1 bp), supported by ample foreign inflow (+Rp9.58Tn).

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	33,093.34	-1.00%	-0.16%
S&P 500	4,205.45	0.32%	9.53%
Nasdaq	12,975.69	2.51%	23.97%
FTSE 100	7,627.20	-1.67%	2.35%
DAX	15,983.97	-1.79%	14.80%
Nikkei 225	30,916.31	0.35%	18.48%
Hang Seng	18,746.92	-3.62%	-5.23%
Shanghai	3,212.50	-2.16%	3.99%
MSCI World	2,827.93	-0.52%	8.65%
MSCI Emerging Markets	972.86	-0.45%	1.72%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	730.08	0.78%	2.65%
Consumer Cyclicals	867.85	2.42%	1.99%
Transportation	1,836.95	2.41%	10.53%
Industrials	1,163.67	-0.30%	-0.91%
Technology	4,590.46	-5.33%	-11.07%
Infrastructures	823.48	0.42%	-5.20%
Financials	1,376.64	0.09%	-2.71%
Consumer NonCyclicals	743.80	1.00%	3.80%
Healthcare	1,480.26	-1.12%	-5.41%
JCI	6,687.00	-0.20%	-2.39%
Energy	1,750.23	-3.34%	-23.22%
Basic Materials	1,010.76	-2.37%	-16.89%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.57	30 bps	14 bps
UST 10Y Yield	3.81	14 bps	-7 bps
Ind GB 10Y Yield	6.43	-1 bps	-50 bps
USDIDR	14,955	30	-583.5
CDS Indo 5Y	90.34	-1.32	-6.62

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.11Tn	+14.13Tn
Government Bond Market (Rp)	+9.58Tn	+68.66Tn

Commodities	Last	1W	YTD
WTI	72.42	1.22%	-10.05%
Brent	76.72	1.51%	-10.70%
CPO (Malaysia)	3,567.00	2.47%	-14.54%
Coal (New Castle)	160.00	-1.39%	-58.97%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,058.58	0.55%	3.94%
XIIT	IDX30	551.72	0.54%	3.90%
XIJI	JII	607.30	-0.39%	-6.24%
XISI	SMInfra18	354.65	0.99%	2.69%
XISR	SriKehati	481.60	1.54%	8.88%
XIHD	IDXHIDIV20	642.01	1.25%	6.13%
XIPI	Pefindo I-Grade	220.33	1.75%	6.48%
XIIML	MSCI Indo Large Cap	304.39	2.06%	9.33%
XIID	IDX30	533.74	0.50%	3.03%
XIFE	FTSE ESG Indonesia	117.11	0.78%	3.18%
XIIC	Consumer Related	1,042.27	0.96%	4.78%
XIIF	Rate Sensitive	527.14	0.92%	2.55%
XISC	BUMN Stocks	695.52	-0.14%	-2.58%
XISB	Sovereign Bonds	486.09	-0.03%	5.34%

Conventional				
RDMP	Equity	887.11	0.75%	3.22%
RPCF	Balanced	2,597.12	0.86%	2.45%
RDPO 2	Fixed Income	1,070.11	0.10%	2.10%
RDPU 2	Money Market	1,407.62	0.09%	1.63%

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	21.3	54.3	11.1	8.9	4.30	14.7	4.3	1.14
2 XIIT	21.6	55.8	7.9	9.9	4.83	14.6	4.4	1.07
3 XISC	19.3	43.6	5.3	13.9	17.80	13.4	4.9	1.33
4 XISR	28.5	62.7	3.7	4.5	0.60	15.3	4.6	1.11
5 XIIF	23.0	55.3	14.0	5.8	1.78	16.1	3.9	1.29
6 XISI	42.7	27.4	15.5	12.9	1.48	12.7	5.5	1.04
7 XIPI	19.6	66.0	9.2	3.9	1.30	17.8	3.5	1.18
8 XIIC	33.0	39.9	21.8	1.5	3.79	17.4	3.6	1.09
9 XIHD	21.1	62.7	2.6	12.2	1.42	11.8	5.4	1.12
10 XIJI	47.2	1.4	25.9	22.3	3.13	11.1	5.0	1.10
11 XIML	16.2	78.5	2.3	1.8	1.19	14.8	4.5	1.11
12 XIID	21.3	56.5	7.8	9.8	4.70	15.6	4.7	1.07
13 XIFE	21.5	59.2	6.2	7.2	5.83	13.2	4.3	1.14
Index								
IDX80	34.4	41.6	13.0	11.0		14.0	4.7	
JCI	29.7	41.1	14.5	14.6		15.2	4.1	

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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Devandra Harahap	Institutional Marketing	devan.harahap@ipc.co.id	Ext. 2315	0856-1167-750
Dewi Rijanti Suherman	Institutional Marketing	dewi.suherman@ipc.co.id	Ext. 2313	0812-9665-7019

DISCLAIMER

© Copyright 2022 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE