

US stocks advanced amid debt ceiling negotiations, driven by big tech

Stocks advanced globally, particularly in Japan and Germany (both are at record highs), while solid gains in US stock market are still driven by big tech stocks as evident from continuing outperformances of Nasdaq and US large-cap growth stocks vs. value stocks. Markets remained relatively calm, despite uncertainty from US debt ceiling negotiations between Democrats and Republicans, which appears to be making progress. This week's US economic data were mixed with April retail sales growth of 0.4% MoM coming below consensus expectations of 0.8% (although ex-Autos it was in line), while weekly jobless claims were better than expected at 242k (cons.: 254k). Fed Chair Powell's hawkish commentary on Friday ended a two-day stock market rally as he stressed inflation remained far too high although tightening credit conditions are helping the Fed in achieving its 2% inflation target, which would otherwise requires steeper policy rate hikes. Although the Fed is likely to pause its rate hike and keep the fed funds rate at 5.00-5.25% range, markets still expect Fed to pivot to an easing with 3 rate cuts starting in November, as implied by fed funds futures pricing data according to CME FedWatch Tool. In bond market, 10-yr US Treasury yields steadily climbed to 3.68% (+22bps) this week, its highest level in more than two months. In the week ahead, aside from following the US debt ceiling negotiations, markets will likely focus on FOMC Minutes and the monthly US PCE Price Index, which is an inflation gauge preferred by the Fed.

In Indonesia, JCI was flattish (-0.11%) amid foreign inflows (+Rp2.27Tn), driven by corrections in energy, basic materials, technology and property stocks, while the gainers were led by healthcare and consumer stocks. In the bond market, 10-year yields were stable at 6.43% (+2bps) despite significant foreign outflows of Rp6.09Tn, which also weakened the local currency.

The Week Ahead – FOMC Minutes, BI Rate Decision, US PCE Price Index

The key economic data to focus next week include US New Home Sales (Tue 21:00), FOMC Minutes (Thu 01:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30), US Pending Home Sales (Thu 21:00), US PCE Price Index, Durable Goods Orders, Personal Income & Spending (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 XIML (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 | 33,426.63 | 0,38% | 0,84% |
| S&P 500 | 4,191.98 | 1,65% | 9,18% |
| Nasdaq | 12,657.90 | 3,04% | 20,94% |
| FTSE 100 | 7,756.87 | 0,03% | 4,09% |
| DAX | 16,275.38 | 2,27% | 16,89% |
| Nikkei 225 | 30,808.35 | 4,83% | 18,06% |
| Hang Seng | 19,450.57 | -0,90% | -1,67% |
| Shanghai | 3,283.54 | 0,34% | 6,29% |
| MSCI World | 2,842.76 | 1,19% | 9,22% |
| MSCI Emerging Markets | 997.24 | 2,49% | 4,27% |

| JCI Sector Indices | Last | 1W | YTD |
|------------------------|----------|--------|---------|
| Property & Real Estate | 724.41 | -1,40% | 1,85% |
| Consumer Cyclical | 847.38 | 0,06% | -0,41% |
| Transportation | 1,793.68 | -3,96% | 7,93% |
| Industrials | 1,167.13 | -0,20% | -0,61% |
| Technology | 4,848.81 | -2,17% | -6,07% |
| Infrastructures | 820.06 | 0,03% | -5,59% |
| Financials | 1,375.34 | -0,23% | -2,80% |
| Consumer Non-Cyclical | 736.45 | 0,42% | 2,78% |
| Healthcare | 1,496.97 | 1,89% | -4,35% |
| JCI | 6,700.56 | -0,11% | -2,19% |
| Energy | 1,810.78 | -5,63% | -20,56% |
| Basic Materials | 1,035.28 | -3,41% | -14,87% |

| Rates and Bonds | Last | 1W | YTD |
|------------------|-----------|--------|---------|
| UST 2Y Yield | 4,28 | 29 bps | -15 bps |
| UST 10Y Yield | 3,68 | 22 bps | -20 bps |
| Ind GB 10Y Yield | 6,43 | 2 bps | -50 bps |
| USDIDR | 14,936.00 | 91,55 | -694,05 |
| CDS Indo 5Y | 91,66 | -5,88 | -5,30 |

| Foreign Fund Flows | 1W | YTD |
|-----------------------------|---------|----------|
| Equity Regular Market (Rp) | +2,27Tn | +23,35Tn |
| Government Bond Market (Rp) | -6,09Tn | +59,07Tn |

| Commodities | Last | 1W | YTD |
|-------------------|----------|--------|---------|
| WTI | 71,55 | 2,08% | -11,13% |
| Brent | 75,76 | 2,14% | -11,81% |
| CPO (Malaysia) | 3,481,00 | -4,58% | -16,60% |
| Coal (New Castle) | 162,25 | -2,55% | -58,40% |

| Funds and ETFs | Last | 1W | YTD | |
|----------------|---------------------|----------|--------|--------|
| ETF | Theme | | | |
| RLQ45 | LQ45 | 1,052,78 | 0,90% | 3,37% |
| XIIT | IDX30 | 548,74 | 0,93% | 3,34% |
| XIJI | JII | 609,71 | -1,39% | -5,87% |
| XISI | SMInfra18 | 351,17 | 0,62% | 1,68% |
| XISR | SriKehati | 474,31 | 1,66% | 7,23% |
| XIHD | IDXHIDIV20 | 634,06 | 0,53% | 4,81% |
| XIPI | Pefindo I-Grade | 216,55 | 1,32% | 4,65% |
| XIML | MSCI Indo Large Cap | 298,26 | 2,11% | 7,12% |
| XIID | IDX30 | 531,09 | 0,89% | 2,52% |
| XIFE | FTSE ESG Indonesia | 116,21 | 1,07% | 2,39% |
| XIIC | Consumer Related | 1,032,40 | 0,72% | 3,79% |
| XIIF | Rate Sensitive | 522,31 | 0,27% | 1,61% |
| XISC | BUMN Stocks | 696,48 | -0,91% | -2,45% |
| XISB | Sovereign Bonds | 486,23 | -0,10% | 5,37% |

| Conventional | Last | 1W | YTD | |
|--------------|--------------|----------|-------|-------|
| RDMP | Equity | 880,50 | 0,30% | 2,45% |
| RPCF | Balanced | 2,575,08 | 0,10% | 1,58% |
| RDPO 2 | Fixed Income | 1,069,03 | 0,10% | 1,99% |
| RDPU 2 | Money Market | 1,406,41 | 0,09% | 1,54% |

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. Cyclicals | Commodities | Cash | 2023F | 2023F | |
| 1 RLQ45 | 21,2 | 53,3 | 11,3 | 9,3 | 5,01 | 14,4 | 4,0 | 1,14 |
| 2 XIIT | 21,4 | 54,6 | 8,0 | 10,3 | 5,67 | 14,0 | 4,2 | 1,07 |
| 3 XISC | 19,1 | 43,2 | 5,3 | 14,5 | 17,94 | 11,7 | 5,4 | 1,33 |
| 4 XISR | 25,8 | 56,4 | 3,4 | 4,2 | 10,20 | 13,4 | 4,5 | 1,11 |
| 5 XIIF | 20,5 | 55,9 | 11,0 | 6,2 | 6,43 | 14,4 | 4,2 | 1,29 |
| 6 XISI | 42,5 | 26,7 | 15,6 | 13,0 | 2,34 | 11,3 | 5,5 | 1,04 |
| 7 XIPI | 19,5 | 65,9 | 9,5 | 3,8 | 1,31 | 15,8 | 3,9 | 1,18 |
| 8 XIIC | 33,0 | 39,9 | 21,8 | 1,5 | 3,84 | 15,5 | 3,9 | 1,09 |
| 9 XIHD | 20,4 | 61,1 | 2,6 | 13,0 | 2,90 | 11,4 | 5,1 | 1,12 |
| 10 XIJI | 45,7 | 1,3 | 25,2 | 22,9 | 4,88 | 13,1 | 4,1 | 1,10 |
| 11 XIML | 16,0 | 77,6 | 2,3 | 2,1 | 1,94 | 13,5 | 4,6 | 1,11 |
| 12 XIID | 21,2 | 55,6 | 8,0 | 10,2 | 5,02 | 14,3 | 4,5 | 1,07 |
| 13 XIFE | 21,5 | 58,2 | 6,4 | 7,4 | 6,56 | 13,2 | 4,3 | 1,14 |
| Index | | | | | | | | |
| IDX80 | 34,9 | 40,9 | 12,8 | 11,4 | | 12,2 | 4,7 | |
| JCI | 30,0 | 40,4 | 14,5 | 15,2 | | 12,3 | 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