

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

US stock and bond markets have continued to trade in narrow range since April as market volatility has decreased significantly amid an easing of inflation and Fed rate hike worries. US headline inflation rate slowed to 4.9% in April (March: 5.0%), slightly better than expected, while core inflation rate of 5.5% (March: 5.6%) came as expected. On monthly basis, core consumer prices rose by 0.4% MoM, the same pace as in March. As such, the monthly core inflation rate has remained stable at around 0.4% since December, except only in February when it accelerated to 0.45%. Given that April inflation was partly driven by a spike in used car prices, which is unlikely to persist, the disinflation trend can still be expected in coming months. Similarly, US core producer prices inflation of 0.2% MoM in April (or 3.2% on a yearly basis) has also been stable since December. The slowdown in US inflation rates gives room for the Fed to pause rate hike, as it had hinted when announcing its latest rate hike last week, as fed funds rate at 5.0-5.25% has now topped the headline inflation rate. However, a pause in rate hike does not mean that rate cuts are coming soon, as the market expected in the fed funds futures pricing, which implies a modest probability of as much as three rate cuts before the end of 2023, according to data from CME FedWatch Tool. While inflation risk is easing, other worries weighing on market sentiment, aside from banking stresses and a tightening credit condition, is the upcoming deadline to raise debt ceiling, which could come as early as June 1, according to US Treasury Secretary Janet Yellen.

In Indonesia, JCI corrected 1.18% amid continuing foreign outflows (-Rp1.68Tn), driven by corrections in basic materials, energy and healthcare stocks while the gainers were led by property, consumer cyclicals, industrials, technology stocks. In bond market, 10-year yields eased to 6.41% (-3bps) amid ongoing foreign inflows of Rp2.33Tn, which also further strengthened the local currency.

**The Week Ahead – Indonesia Trade Balance, Fed Speeches, US Retail Sales**

The key economic data to focus next week include Indonesia Trade Balance (Mon 11:00), US Retail Sales (Tue 19:30), US Industrial Production (Tue 20:15), 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 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	33,300.62	-1.11%	0.46%
S&P 500	4,124.08	-0.29%	7.41%
Nasdaq	12,284.74	0.40%	17.37%
FTSE 100	7,754.62	-0.31%	4.06%
DAX	15,913.82	-0.30%	14.29%
Nikkei 225	29,388.30	0.79%	12.62%
Hang Seng	19,627.24	-2.11%	-0.78%
Shanghai	3,272.36	-1.86%	5.93%
MSCI World	2,809.35	-0.45%	7.94%
MSCI Emerging Markets	973.00	-0.88%	1.74%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	734.70	4.44%	3.30%
Consumer Cyclicals	846.88	3.73%	-0.47%
Transportation	1,867.66	3.21%	12.38%
Industrials	1,169.49	2.11%	-0.41%
Technology	4,956.29	1.69%	-3.99%
Infrastructures	819.81	0.25%	-5.62%
Financials	1,378.51	0.02%	-2.57%
Consumer Non-Cyclicals	733.37	-0.09%	2.35%
Healthcare	1,469.21	-1.10%	-6.12%
<b>JCI</b>	<b>6,707.76</b>	<b>-1.18%</b>	<b>-2.09%</b>
Energy	1,918.79	-1.82%	-15.83%
Basic Materials	1,071.84	-3.86%	-11.86%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.99	7 bps	-44 bps
UST 10Y Yield	3.46	3 bps	-42 bps
Ind GB 10Y Yield	6.41	-3 bps	-52 bps
USDIDR	14,844.45	169.65	-863.7
CDS Indo 5Y	97.54	0.52	0.58

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.68Tn	+11.62Tn
Government Bond Market (Rp)	+2.33Tn	+63.14Tn

Commodities	Last	1W	YTD
WTI	70.09	-1.72%	-12.94%
Brent	74.17	-1.50%	-13.67%
CPO (Malaysia)	3,648.00	1.31%	-12.60%
Coal (New Castle)	166.50	-1.86%	-57.31%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,043.34	-1.37%	2.44%
XIIT	IDX30	543.66	-1.52%	2.38%
XIJI	JII	618.30	-0.97%	-4.54%
XISI	SMinfra18	349.00	-0.43%	1.05%
XISR	SriKehati	466.54	-1.67%	5.47%
XIHD	IDXHIDIV20	630.72	-1.86%	4.26%
XIPI	Pefindo I-Grade	213.74	-2.51%	3.29%
XIML	MSCI Indo Large Cap	292.10	-2.13%	4.91%
XIID	IDX30	526.40	-1.60%	1.62%
XIFE	FTSE ESG Indonesia	114.98	-1.56%	1.30%
XIIC	Consumer Related	1,025.00	-0.02%	3.04%
XIIF	Rate Sensitive	520.92	-0.23%	1.34%
XISC	BUMN Stocks	702.89	-0.26%	-1.55%
XISB	Sovereign Bonds	486.73	0.88%	5.48%

Conventional	Last	1W	YTD	
RDMP	Equity	877.90	-0.89%	2.15%
RPCF	Balanced	2,572.40	-1.36%	1.47%
RDPO 2	Fixed Income	1,067.94	0.10%	1.89%
RDPU 2	Money Market	1,405.20	0.08%	1.46%

**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	21.0	52.1	11.3	10.1	5.56	14.3	4.0	1.14
2 XIIT	21.2	53.4	8.0	11.1	6.27	13.8	4.1	1.07
3 XISC	19.0	42.8	5.9	15.0	17.30	11.5	5.4	1.33
4 XISR	28.3	60.9	3.8	4.8	2.26	13.2	4.6	1.11
5 XIIF	20.4	55.3	11.2	6.6	6.49	14.1	4.2	1.29
6 XISI	41.3	25.5	15.4	13.6	4.15	11.1	5.6	1.04
7 XIPI	19.4	64.8	9.7	4.1	2.04	15.6	3.9	1.18
8 XIIC	33.1	39.2	22.1	1.6	3.96	15.3	3.9	1.09
9 XIHD	20.2	59.8	2.7	14.3	2.94	11.3	5.1	1.12
10 XIJI	43.6	1.4	24.2	24.1	6.79	13.4	4.0	1.10
11 XIML	16.2	77.1	2.2	2.5	2.01	13.2	4.6	1.11
12 XIID	21.0	54.3	8.0	11.1	5.61	14.2	4.4	1.07
13 XIFE	21.6	57.3	6.5	8.0	6.68	13.2	4.3	1.14
<b>Index</b>								
IDX80	34.9	40.0	12.9	12.3		12.3	4.6	
JCI	29.9	39.5	14.6	16.0		12.3	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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