

US stocks tech-driven gains amid renewed turmoil on First Republic Bank

US stock indices stumbled on Tuesday, after First Republic Bank reported huge deposit outflows even after cash infusion from a consortium of major banks, but recovered later in the week to post modest gains. However, the gains in the S&P500 were largely driven by the big tech stocks on the back of earnings beat while cyclical sectors performed poorly on new signs of an economic slowdown. US GDP QoQ growth slowed to an annualised rate of 1.1% in Q1 2023, from a 2.6% growth in the prior quarter, missing market expectations of a 2% growth. Renewed banking turmoil also heightened fears of a possible recession as FDIC was planning to take First Republic Bank into receivership and invited banks to submit final bids to take over the struggling bank. A more positive news came from inflation as the PCE Price Index slowed to 0.1% MoM (4.2% YoY) in March, from 0.3% and 5.1%, respectively, in the previous month, although the core PCE inflation of 0.3% and 4.6%, respectively, was more or less as expected. On the back of this, 10-yr US Treasury yields fell by 11bps to 3.46%. In the week ahead, market's attention will focus on Fed Interest Rate Decision on Thursday and US Jobs Report on Friday. Market currently expects Fed to hike its rate by 25bps to a 5.00-5.25% range and maintaining this rate throughout the year albeit with a still low probability of one rate cut of 25bps towards the end of 2023, according to expectations of interest rate traders as reported by CME FedWatch Tool.

In Indonesia, JCI gained 1.38% amid sustained foreign inflows of Rp2.7Tn with gains reported by most equity sectors except industrials and financial sectors. In the bond market, 10-year yields eased to 6.54% (-14bps) amid strengthening local currency and small foreign outflows of Rp0.65Tn.

The Week Ahead – Fed Meeting, US Jobs Reports, Indonesia GDP Growth

The key economic data to focus next week include US ISM Manufacturing PMI (Mon 21:00), Indonesia Inflation Rate (Tue 11:00), EU Inflation Rate (Tue 16:00), US ADP Employment Change (Wed 19:15), US ISM Services PMI (Wed 21:00), Fed Interest Rate Decision (Thu 01:00), Indonesia GDP Growth Rate (Fri 11:00), 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	34,098.16	0.86%	2.87%
S&P 500	4,169.48	0.87%	8.59%
Nasdaq	12,226.59	1.28%	16.82%
FTSE 100	7,870.57	-0.55%	5.62%
DAX	15,922.38	0.26%	14.36%
Nikkei 225	28,856.44	1.02%	10.58%
Hang Seng	19,894.57	-0.90%	0.57%
Shanghai	3,323.23	0.67%	7.58%
MSCI World	2,835.98	0.46%	8.96%
MSCI Emerging Markets	977.05	-0.38%	2.16%

JCI Sector Indices	Last	1W	YTD
Transportation	1,809.88	4.51%	8.90%
Consumer Non-Cyclicals	726.67	2.78%	1.41%
Property & Real Estate	700.23	2.29%	-1.55%
Technology	4,937.07	1.99%	-4.36%
Healthcare	1,541.67	1.70%	-1.49%
Infrastructures	822.05	1.69%	-5.36%
JCI	6,915.72	1.38%	0.95%
Energy	2,094.86	1.37%	-8.10%
Basic Materials	1,171.17	1.12%	-3.70%
Consumer Cyclical	810.83	0.19%	-4.71%
Industrials	1,207.23	-0.01%	2.80%
Financials	1,385.54	-0.31%	-2.08%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.02	-16 bps	-41 bps
UST 10Y Yield	3.46	-11 bps	-42 bps
Ind GB 10Y Yield	6.54	-14 bps	-39 bps
USDIDR	14,673.55	(171.45)	-693.5
CDS Indo 5Y	94.32	-1.94	-2.64

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.71Tn	+14.29Tn
Government Bond Market (Rp)	-0.65Tn	60.81Tn

Commodities	Last	1W	YTD
WTI	76.63	-1.59%	-4.82%
Brent	80.33	-1.63%	-6.50%
CPO (Malaysia)	3,338.00	-10.89%	-20.03%
Coal (New Castle)	189.70	-0.34%	-51.36%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,070.44	1.78%	5.10%
XIIT	IDX30	558.34	1.81%	5.14%
XIJI	JII	647.45	2.73%	-0.04%
XISI	SMInfra18	362.20	2.71%	4.87%
XISR	SriKehati	478.33	1.63%	8.14%
XIHD	IDXHIDIV20	658.96	1.62%	8.93%
XIPI	Pefindo I-Grade	220.89	0.43%	6.75%
XIIML	MSCI Indo Large Cap	299.01	1.06%	7.39%
XIID	IDX30	541.35	1.68%	4.50%
XIFE	FTSE ESG Indonesia	117.64	1.53%	3.65%
XIIC	Consumer Related	1,020.81	1.36%	2.62%
XIIF	Rate Sensitive	528.67	1.58%	2.85%
XISC	BUMN Stocks	721.47	0.67%	1.05%
XISB	Sovereign Bonds	478.88	0.60%	3.78%

Conventional	Last	1W	YTD	
RDMP	Equity	900.18	2.05%	4.74%
RPCF	Balanced	2,662.86	1.27%	5.04%
RDPO 2	Fixed Income	1,065.80	0.14%	1.69%
RDPU 2	Money Market	1,402.81	0.10%	1.28%

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 XIML	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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