

Fed suggested pivot might not occur as quickly as the market had hoped

US stocks reversed prior weeks' gains amid Fed Chair Powell's comments that a pivot to cut rates might not occur as quickly as the market had hoped although Fed hinted possibility of a pause in rate hike cycle in its latest policy statement. During its May 3 meeting, the Fed raised rates by 0.25% to a 5.0-5.25% range, which could be its last interest rate hike this cycle. However, in spite of Powell's remark, the Fed Funds futures market still priced in possibility of Fed rate cuts to begin as early as in September. Meanwhile, the banking turmoil affecting US regional banks continues as more West Coast-based banks came under intense market scrutiny in the wake of recent bank failures. Markets are also concerned about potential default as Treasury Secretary Janet Yellen notified US congress that the government might not be able to meet its debt obligations potentially as early as June 1, several weeks earlier than previously had been expected. The banking turmoil and debt deadline anxiety had lowered 10-yr UST yields to as low as 3.30% before yields recovered on Friday amid the release of US nonfarm payrolls data showing 253,000 jobs were added in April, which exceeded both the prior month's job gains of 165,000 and consensus estimate of 179,000 jobs. Outside of the US, stock markets in Europe and Japan continued performing strongly, well outpacing US stocks and emerging market equities so far in 2023, despite also impacted by recession fears and banking concerns. In the week ahead, market will likely focus on release of US inflation data, which will show whether recent moderation in inflation will extend into April (consensus: 5%), after inflation fell to 5.0% in March from 6.0% in the previous month.

In Indonesia, JCI corrected 1.85% amid slight foreign inflows reversal (-Rp0.7Tn) with coal mining, industrials, basic materials, healthcare stocks corrected the most, while consumer and property stocks were resilient. In the bond market, 10-year yields dropped 10bps to 6.44% amid continuing strong foreign inflows.

The Week Ahead – US CPI and PPI Inflation Rates

The key economic data to focus next week are US Inflation Rate (Wed 19:30), US Initial Jobless Claims (Thu 19:30), US Producer Price Inflation (Thu 19:30), US Michigan Consumer Sentiment Survey (Fri 21:00).

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 overweight 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	33,674.38	-1.24%	1.59%
S&P 500	4,136.25	-0.80%	7.73%
Nasdaq	12,235.41	0.07%	16.90%
FTSE 100	7,778.38	-1.17%	4.38%
DAX	15,961.02	0.24%	14.63%
Nikkei 225	29,157.95	1.04%	11.74%
Hang Seng	20,049.31	0.78%	1.35%
Shanghai	3,334.50	0.34%	7.94%
MSCI World	2,821.99	-0.49%	8.43%
MSCI Emerging Markets	981.66	0.47%	2.64%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	734.03	1.01%	2.44%
Consumer Cyclicals	816.42	0.69%	-4.05%
Property & Real Estate	703.47	0.46%	-1.09%
Transportation	1,809.64	-0.01%	8.89%
Infrastructures	817.74	-0.52%	-5.86%
Financials	1,378.19	-0.53%	-2.60%
Technology	4,873.74	-1.28%	-5.58%
JCI	6,787.63	-1.85%	-0.92%
Healthcare	1,485.63	-3.63%	-5.07%
Basic Materials	1,114.85	-4.81%	-8.33%
Industrials	1,145.31	-5.13%	-2.47%
Energy	1,954.36	-6.71%	-14.27%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.92	-10 bps	-51 bps
UST 10Y Yield	3.44	-3 bps	-45 bps
Ind GB 10Y Yield	6.44	-10 bps	-49 bps
USDIDR	14,674.80	1.25	-864.95
CDS Indo 5Y	97.02	2.81	0.06

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.99Tn	+13.30Tn
Government Bond Market (Rp)	+2.33Tn	+63.14Tn

Commodities	Last	1W	YTD
WTI	71.32	-6.93%	-11.41%
Brent	75.30	-6.26%	-12.35%
CPO (Malaysia)	3,601.00	+7.88%	-13.73%
Coal (New Castle)	169.65	-10.57%	-56.50%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,057.82	-1.18%	3.86%
XIIT	IDX30	552.04	-1.13%	3.96%
XIJI	JII	624.38	-3.56%	-3.60%
XISI	SMInfra18	350.51	-3.23%	1.49%
XISR	SriKehati	474.45	-0.81%	7.26%
XIHD	IDXHIDIV20	642.67	-2.47%	6.24%
XIPI	Pefindo I-Grade	219.25	-0.75%	5.96%
XIML	MSCI Indo Large Cap	298.45	-0.19%	7.19%
XIID	IDX30	534.95	-1.18%	3.27%
XIFE	FTSE ESG Indonesia	116.80	-0.71%	2.91%
XIIC	Consumer Related	1,025.24	0.43%	3.07%
XIIF	Rate Sensitive	522.14	-1.24%	1.58%
XISC	BUMN Stocks	704.71	-2.32%	-1.29%
XISB	Sovereign Bonds	482.47	0.75%	4.56%

Conventional	Last	1W	YTD	
RDMP	Equity	885.81	-1.60%	3.07%
RPCF	Balanced	2,607.98	-2.06%	2.87%
RDPO 2	Fixed Income	1,066.85	0.10%	1.79%
RDPU 2	Money Market	1,404.01	0.09%	1.37%

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	21.2	52.2	11.2	10.3	5.11	14.6	4.0	1.14
2 XIIT	21.6	53.4	7.9	11.3	5.76	14.1	4.2	1.07
3 XISC	19.0	43.4	6.5	15.0	16.07	11.8	5.3	1.33
4 XISR	28.6	60.9	3.8	4.7	2.04	13.5	4.5	1.11
5 XIIF	20.5	56.0	11.4	6.8	5.38	15.5	4.1	1.29
6 XISI	41.5	26.0	16.1	13.2	3.28	11.5	5.6	1.04
7 XIPI	19.8	65.0	9.6	4.4	1.18	15.8	3.9	1.18
8 XIIC	33.4	39.9	21.0	1.8	3.98	15.7	3.8	1.09
9 XIHD	20.6	59.8	2.7	14.1	2.92	12.3	4.8	1.12
10 XIJI	44.9	1.3	24.6	24.6	4.61	13.3	4.0	1.10
11 XIML	16.5	76.9	2.2	2.5	1.99	13.5	4.5	1.11
12 XIID	21.3	54.4	7.9	11.2	5.17	14.3	4.4	1.07
13 XIFE	21.7	57.5	6.3	8.3	6.22	13.2	4.3	1.14
Index								
IDX80	34.7	40.2	12.5	12.6		12.3	4.5	
JCI	29.8	39.7	13.8	16.6		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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