

Bull market is back for developed equities amid rising US Treasury yields

S&P500 is moving into bull market territory this week, after rising by over 20% since its October lows (YTD: +12%), maintaining uptrend for fourth consecutive week. Together with the strong performances in Japan and European markets, developed market equities well outperformed emerging markets so far in 2023 (+10.9% vs. 4.8%) amid sticky US inflation and renewed uptrend in bond yields in the past month. US economy has been resilient amid rising interest rates, as evident in its labor market, raising expectations for a soft landing. US Core PCE Price Index, the Fed's preferred inflation gauge, remains high at 4.7% YoY in April, or largely unchanged in the past six months, and market expectations of a Fed pivot has been pushed back from Q4 2023 into early 2024 and Fed Funds rate is expected to remain at 5.00-5.25% range at the end of 2023. In the week ahead, markets will likely focus on US inflation data releases, for both retail and wholesale prices, Fed's interest rate decision and economic projections, and any indications as to whether the Fed might shift back to a rate-hiking mode at its subsequent meeting on July 26, if it chooses to keep rates unchanged during its June 14 meeting. The Fed Funds futures pricing data currently implies high market expectations of no rate hike in next week's Fed meeting but moderate probabilities of 25bps rate hike to 5.25-5.50% range in the July meeting.

In Indonesia, JCI rose 0.92% this week amid slight fund outflows of Rp345Bn on the back of broad-based gains across nearly all sectors except technology. The JCI has been a laggard this year (YTD: -2.29%) when compared to global equity markets although such weak performance of the market index does not reflect much stronger returns of the country's big cap stocks so far in 2023. In the local bond market, yields were relatively stable amid foreign inflows of Rp2.98Tn.

The Week Ahead – US CPI & PPI Inflation, Fed Meeting, FOMC Projections

The key economic data to focus next week include US CPI Inflation Rate (Tue 19:30), US PPI Inflation Rate (Wed 19:30), Fed Interest Rate Decision & FOMC Economic Projections (Thu 01:00), ECB Interest Rate Decision (Thu 19:15), US Initial Jobless Claims (Thu 19:30), US Retail Sales (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 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	33,876.78	0.34%	2.20%
S&P 500	4,298.86	0.39%	11.96%
Nasdaq	13,259.14	0.14%	26.68%
FTSE 100	7,562.36	-0.59%	1.48%
DAX	15,949.84	-0.63%	14.55%
Nikkei 225	32,265.17	2.35%	23.65%
Hang Seng	19,389.95	2.32%	-1.98%
Shanghai	3,231.41	0.04%	4.60%
MSCI World	2,885.63	0.43%	10.87%
MSCI Emerging Markets	1,002.33	1.83%	4.80%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	749.31	5.27%	5.35%
Consumer Cyclical	888.95	3.87%	4.47%
Transportation	1,926.46	5.54%	15.92%
Industrials	1,168.00	3.60%	-0.54%
Technology	4,947.21	-3.11%	-4.16%
Infrastructures	855.65	3.88%	-1.50%
Financials	1,394.90	1.94%	-1.42%
Consumer Non-Cyclicals	749.08	1.59%	4.54%
Healthcare	1,501.46	3.02%	-4.06%
JCI	6,694.02	0.92%	-2.29%
Energy	1,770.09	3.54%	-22.35%
Basic Materials	991.12	0.77%	-18.50%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.60	8 bps	17 bps
UST 10Y Yield	3.74	5 bps	-13 bps
Ind GB 10Y Yield	6.34	-2 bps	-60 bps
USDIDR	14,888.00	-13.9	-666.1
CDS Indo 5Y	82.42	-1.96	-14.54

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-345Bn	+15.6Tn
Government Bond Market (Rp)	+2.98Tn	+70.15Tn

Commodities	Last	1W	YTD
WTI	71.39	-0.49%	-11.05%
Brent	76.08	-0.07%	-11.44%
CPO (Malaysia)	3,370.00	-0.24%	-12.90%
Coal (New Castle)	135.70	0.80%	-66.42%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,069.52	0.60%	5.01%
XIIT	IDX30	558.38	0.70%	5.15%
XIJI	JII	613.65	2.00%	-5.26%
XISI	SMInfra18	357.69	1.56%	3.57%
XISR	SriKehati	482.38	1.24%	9.05%
XIHD	IDXHIDIV20	646.69	1.99%	6.90%
XIPI	Pefindo I-Grade	219.45	0.65%	6.05%
XIML	MSCI Indo Large Cap	303.10	0.65%	8.86%
XIID	IDX30	539.66	0.67%	4.18%
XIFE	FTSE ESG Indonesia	117.98	0.23%	3.94%
XIIC	Consumer Related	1,051.72	2.65%	5.73%
XIIF	Rate Sensitive	538.50	3.14%	4.76%
XISC	BUMN Stocks	709.81	1.79%	-0.58%
XISB	Sovereign Bonds	491.66	0.39%	6.55%

Conventional	Last	1W	YTD	
RDMP	Equity	899.08	1.26%	4.61%
RPCF	Balanced	2,609.30	1.31%	2.93%
RDPO 2	Fixed Income	1,072.10	0.13%	2.29%
RDPU 2	Money Market	1,410.01	0.12%	1.80%

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	25.5	53.6	10.8	9.2	0.84	14.5	4.1	1.14
2 XIIT	26.4	55.0	7.6	10.2	0.84	14.1	4.2	1.07
3 XISC	23.0	42.7	5.3	14.7	14.29	12.0	5.3	1.33
4 XISR	27.2	62.5	3.8	6.2	0.43	13.6	4.5	1.11
5 XIIF	23.2	54.7	14.4	5.9	1.82	14.6	4.3	1.29
6 XISI	43.6	26.7	15.3	12.8	1.50	11.6	5.5	1.04
7 XIPI	19.9	65.8	9.2	4.1	1.07	16.0	3.8	1.18
8 XIIC	34.3	39.8	23.3	1.5	1.09	15.2	3.9	1.18
9 XIHD	21.2	62.1	2.4	12.9	1.46	11.5	5.1	1.12
10 XIJI	38.2	16.1	20.3	24.6	0.81	11.9	4.2	1.10
11 XIML	20.4	72.5	0.0	3.8	3.35	13.5	4.7	1.11
12 XIID	26.0	55.8	7.5	10.0	0.67	14.3	4.5	1.07
13 XIFE	26.8	58.3	6.1	7.3	1.51	13.2	4.3	1.14
Index								
IDX80	35.1	41.0	12.8	11.1		12.7	4.6	
JCI	29.7	41.1	14.5	14.6		12.9	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

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