

Renewed concerns over further rate hikes and slowing global economy

Global stock markets corrected, breaking bullish streaks as S&P500 recorded its first drop in six weeks, and developed and emerging markets fell by 2.0% and 3.7%, respectively, this week (in US dollar terms). The bullish streaks in the prior five weeks affecting developed equity markets was driven by investor optimism of resilient US economy that in turn led to Fed's upgraded median GDP growth projection of 1.0% for Q4 2023, from 0.4% in March. However, the Fed (and other central banks) is not yet done with its rate-hiking cycle and has indicated that two more rate hikes are likely this year given sticky inflation and resilient labor market. News on Thursday that the central banks in UK and Norway had accelerated their pace of rate hikes had further intensified rate fears. The Bank of England and Norges Bank unexpectedly raised rates by 50bps to 5.0% and 3.75%, respectively, which are their highest levels since 2008. This led to worries that further rate hikes might cause recession in the UK and Eurozone and slow global growth, especially after China's disappointing post-pandemic economic recovery. Concerns about global growth and energy demand also weighed on US crude oil prices, which fell to below US\$70 per barrel. In the week ahead, investors' focus will be on the release of US May Core PCE Price Index, the Fed's preferred inflation gauge, to see if April's inflation rise to 0.4% MoM/4.4% YoY (vs. 0.3%/4.2% in March) will be extended into May (consensus forecast for May's Core PCE Price Index is 0.4% MoM rise, unchanged vs. April).

In Indonesia, JCI fell 0.88% this week amid sustained fund outflows (Rp1.42Tn), with declines recorded across all sectors, most notably technology (-4.26%), healthcare (-1.6%) and basic materials (-1.08%). The JCI has been a laggard this year (YTD: -3.08%) vs. global equity markets although broad-based ETFs based LQ45 and IDX30 indices gained by 4.4% and 4.3%, respectively, so far in 2023.

The Week Ahead – Fed and ECB Speeches, US PCE Price Index, China PMIs

The key economic data to focus next week are ECB President Lagarde Speech (Tue 15:00), US Durable Goods Orders (Tue 19:30), CB Consumer Confidence (Tue 21:00), Fed Chair Powell Speech (Wed 20:30), US Initial Jobless Claims (Thu 19:30), China NBS Manufacturing and Non-Manufacturing PMIs (Fri 08:30), EU Inflation Rate (Fri 16:00), US PCE Price Index, US 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 7,400 (vs. our prior target of 7,600 set at end of 2022), based on our forward P/E target of 13x, which is still in line with the market's long-term 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 BBCA, and more importantly, these two ETFs have no exposure to major technology stocks, which we view as posing considerable risk to fund performances at a time of rising interest rates globally. Our two other top ETF picks are XIML (MSCI Indonesia Large Cap), for its constituent of mainly blue-chip stocks, and XIHD (High Dividend), for its focus on high yielding stocks.

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 | 33,727.43 | -1.67% | 1.75% |
| S&P 500 | 4,348.33 | -1.39% | 13.25% |
| Nasdaq | 13,492.52 | -1.44% | 28.91% |
| FTSE 100 | 7,461.87 | -2.37% | 0.14% |
| DAX | 15,829.94 | -3.23% | 13.69% |
| Nikkei 225 | 32,781.54 | -2.74% | 25.63% |
| Hang Seng | 18,889.97 | -5.74% | -4.51% |
| Shanghai | 3,197.90 | -2.30% | 3.52% |
| MSCI World | 2,902.34 | -2.03% | 11.51% |
| MSCI Emerging Markets | 991.91 | -3.70% | 3.72% |

| JCI Sector Indices | Last | 1W | YTD |
|------------------------|----------|--------|---------|
| Property & Real Estate | 727.32 | -0.87% | 2.26% |
| Consumer Cyclical | 875.46 | -0.70% | 2.89% |
| Transportation | 1,914.42 | -0.34% | 15.19% |
| Industrials | 1,166.00 | -0.90% | -0.71% |
| Technology | 4,818.59 | -4.26% | -6.65% |
| Infrastructures | 847.88 | -0.79% | -2.39% |
| Financials | 1,393.19 | -0.11% | -1.54% |
| Consumer Non-Cyclical | 740.84 | -0.51% | 3.39% |
| Healthcare | 1,482.21 | -1.60% | -5.29% |
| JCI | 6,639.73 | -0.88% | -3.08% |
| Energy | 1,791.65 | -0.44% | -21.40% |
| Basic Materials | 997.46 | -1.08% | -17.98% |

| Rates and Bonds | Last | 1W | YTD |
|------------------|-----------|--------|---------|
| UST 2Y Yield | 4.75 | 3 bps | 32 bps |
| UST 10Y Yield | 3.74 | -3 bps | -14 bps |
| Ind GB 10Y Yield | 6.30 | 0 bps | -64 bps |
| USDIDR | 15,045.30 | 83.85 | -606.55 |
| CDS Indo 5Y | 88.34 | 5.44 | -8.62 |

| Foreign Fund Flows | 1W | YTD |
|-----------------------------|---------|----------|
| Equity Regular Market (Rp) | -1.42Tn | +11.35Tn |
| Government Bond Market (Rp) | +0.23Tn | +80.79Tn |

| Commodities | Last | 1W | YTD |
|-------------------|----------|--------|---------|
| WTI | 69.50 | -0.86% | -13.41% |
| Brent | 73.85 | -1.85% | -14.04% |
| CPO (Malaysia) | 3,620.00 | -3.77% | -6.44% |
| Coal (New Castle) | 125.75 | -2.10% | -68.89% |

| Funds and ETFs | Last | 1W | YTD | |
|----------------|---------------------|----------|--------|--------|
| ETF | Theme | | | |
| RLQ45 | LQ45 | 1,063.43 | -0.92% | 4.41% |
| XIIT | IDX30 | 553.85 | -1.08% | 4.30% |
| XIJI | JII | 616.71 | -0.68% | -4.79% |
| XISI | SMInfra18 | 358.95 | -0.40% | 3.93% |
| XISR | SriKehati | 479.23 | -0.96% | 8.34% |
| XIHD | IDXHIDIV20 | 645.39 | -1.11% | 6.69% |
| XIPI | Pefindo I-Grade | 218.58 | -0.92% | 5.64% |
| XIML | MSCI Indo Large Cap | 299.06 | -1.21% | 7.41% |
| XIID | IDX30 | 538.74 | -0.37% | 4.00% |
| XIFE | FTSE ESG Indonesia | 117.06 | -1.04% | 3.14% |
| XIIC | Consumer Related | 1,036.50 | -0.94% | 4.20% |
| XIIF | Rate Sensitive | 532.06 | -1.15% | 3.51% |
| XISC | BUMN Stocks | 713.93 | -0.96% | 0.00% |
| XISB | Sovereign Bonds | 493.98 | -0.18% | 7.05% |

| Conventional | Last | 1W | YTD | |
|--------------|--------------|----------|--------|-------|
| RDMP | Equity | 890.94 | -0.81% | 3.67% |
| RPCF | Balanced | 2,601.62 | -0.75% | 2.62% |
| RDPO 2 | Fixed Income | 1,074.33 | 0.11% | 2.50% |
| RDPU 2 | Money Market | 1,412.58 | 0.09% | 1.99% |

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 | 24.7 | 53.9 | 11.1 | 9.4 | 0.86 | 14.4 | 4.2 | 1.14 |
| 2 XIIT | 25.2 | 56.0 | 7.6 | 10.4 | 0.89 | 13.9 | 4.3 | 1.07 |
| 3 XISC | 21.9 | 43.4 | 5.5 | 15.2 | 14.05 | 11.8 | 5.4 | 1.33 |
| 4 XISR | 26.3 | 62.5 | 4.0 | 6.2 | 1.03 | 13.4 | 4.6 | 1.11 |
| 5 XIIF | 22.7 | 56.0 | 13.6 | 6.0 | 1.67 | 14.5 | 4.3 | 1.29 |
| 6 XISI | 42.7 | 26.7 | 15.9 | 13.1 | 1.68 | 11.4 | 5.6 | 1.04 |
| 7 XIPI | 19.1 | 65.5 | 9.5 | 4.1 | 1.77 | 15.9 | 3.9 | 1.18 |
| 8 XIIC | 35.0 | 36.3 | 25.4 | 1.6 | 1.80 | 15.0 | 4.1 | 1.18 |
| 9 XIHD | 20.1 | 61.2 | 2.3 | 13.4 | 2.92 | 11.4 | 5.2 | 1.12 |
| 10 XIJI | 36.6 | 16.0 | 21.0 | 24.8 | 1.56 | 11.9 | 4.2 | 1.10 |
| 11 XIML | 19.7 | 74.6 | 0.0 | 3.9 | 1.77 | 13.3 | 4.8 | 1.11 |
| 12 XIID | 25.0 | 55.6 | 7.6 | 10.2 | 1.64 | 14.1 | 4.6 | 1.07 |
| 13 XIFE | 26.1 | 58.7 | 6.1 | 7.6 | 1.50 | 13.2 | 4.3 | 1.14 |
| Index | | | | | | | | |
| IDX80 | 34.3 | 41.3 | 13.0 | 11.5 | | 12.5 | 4.6 | |
| JCI | 0.0 | 0.0 | 0.0 | 0.0 | | 12.6 | 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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