

Sticky US inflationary pressures, Fed signaled at least two more rate hikes

Global stock markets maintained bullish momentum as major US stock indices rose for their fifth consecutive week, the longest such streak since November 2021. Developed and emerging markets equities have risen by 13.8% and 7.7%, respectively, so far in 2023. This week's release of US inflation data were mixed, as headline CPI fell to 4.0% YoY in May (April: 4.9%), its lowest in over 2 years, but excluding volatile costs such as energy and food, core inflation rose at 5.3% YoY, indicating continued inflationary pressures. US economy remains resilient, with retail sales growth of 0.3% MoM in May (April: +0.4%), which was stronger than expected (-0.1%). The favourable US inflation and growth data seemed to support the uptrend in equity markets despite Fed's hawkish signals. While the Fed kept rate steady this week (as expected), its first time of no rate hike after hiking rates during each of the prior ten consecutive meetings, Fed officials signaled they could raise rates again at upcoming meetings if the economy and inflation don't cool further. Economic projections released by FOMC members during the June meeting show a median Fed Funds rate of 5.6% at end of 2023, which is 50bps higher than projections made during the March meeting, amid forecasts for stronger US real GDP growth of 1.0% (March: 0.4%) and core PCE inflation of 3.9% (March: 3.6%). Meanwhile, markets expectations, as implied by Fed Funds futures pricing data according to CME FedWatch Tool, show high probabilities of only one rate hike of 25bps to be made during the July Fed meeting but no further rate hike is expected in the remaining of the year.

In Indonesia, JCI was flattish amid sustained fund outflows (Rp2.26Tn). Energy, technology, basic materials and industrials sectors were main gainers this week while property and consumer sectors are the most laggards. The JCI has been a laggard this year (YTD: -2.2%) when compared to global equity markets but this week market index return does not reflect performances of broad-based stock indices such as LQ45 and IDX30, which gained over 5% so far in 2023.

The Week Ahead – Fed Officials Testimony and Speech, BI Rate Decision

The key economic data to focus next week include Fed Chair Powell Testimony (Wed 21:00; Thu 21:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30), US Existing Home Sales (Thu 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 7,400 (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 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 XIIML (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	34,299.12	1.25%	3.48%
S&P 500	4,409.59	2.58%	14.85%
Nasdaq	13,689.57	3.25%	30.79%
FTSE 100	7,642.72	1.06%	2.56%
DAX	16,357.63	2.56%	17.48%
Nikkei 225	33,706.08	4.47%	29.17%
Hang Seng	20,040.37	3.35%	1.31%
Shanghai	3,273.33	1.30%	5.96%
MSCI World	2,962.34	2.66%	13.82%
MSCI Emerging Markets	1,030.03	2.76%	7.70%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	733.70	-2.08%	3.16%
Consumer Cyclical	881.64	-0.82%	3.61%
Transportation	1,920.87	-0.29%	15.58%
Industrials	1,176.63	0.74%	0.20%
Technology	5,033.13	1.74%	-2.50%
Infrastructures	854.61	-0.12%	-1.62%
Financials	1,394.67	-0.02%	-1.43%
Consumer Non-Cyclical	744.65	-0.59%	3.92%
Healthcare	1,506.37	0.33%	-3.74%
JCI	6,698.55	0.07%	-2.22%
Energy	1,799.60	1.67%	-21.05%
Basic Materials	1,008.37	1.74%	-17.08%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.72	12 bps	29 bps
UST 10Y Yield	3.77	3 bps	-11 bps
Ind GB 10Y Yield	6.30	-4 bps	-64 bps
USDIDR	14,961.45	121.45	-728
CDS Indo 5Y	82.90	0.48	-14.06

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.26Tn	+13.4Tn
Government Bond Market (Rp)	+10.41Tn	+80.56Tn

Commodities	Last	1W	YTD
WTI	70.10	-0.10%	-12.66%
Brent	75.24	0.60%	-12.42%
CPO (Malaysia)	3,762.00	10.55%	-2.77%
Coal (New Castle)	128.45	-5.34%	-68.22%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,073.33	0.36%	5.38%
XIIT	IDX30	559.87	0.27%	5.43%
XIJI	JII	620.93	1.19%	-4.13%
XISI	SMInfra18	360.40	0.76%	4.35%
XISR	SriKehati	483.90	0.31%	9.40%
XIHD	IDXHIDIV20	652.64	0.92%	7.89%
XIPI	Pefindo I-Grade	220.61	0.53%	6.62%
XIIML	MSCI Indo Large Cap	302.71	-0.13%	8.72%
XIID	IDX30	540.76	0.20%	4.39%
XIFE	FTSE ESG Indonesia	118.29	0.26%	4.22%
XIIC	Consumer Related	1,046.35	-0.51%	5.19%
XIIF	Rate Sensitive	538.23	-0.05%	4.71%
XISC	BUMN Stocks	720.85	1.56%	0.97%
XISB	Sovereign Bonds	494.88	0.66%	7.24%

Conventional	Last	1W	YTD	
RDMP	Equity	898.18	-0.10%	4.51%
RPCF	Balanced	2,621.16	0.45%	3.39%
RDPO 2	Fixed Income	1,073.18	0.10%	2.39%
RDPU 2	Money Market	1,411.36	0.10%	1.90%

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	24.6	53.7	10.9	9.4	1.35	14.5	4.7	1.14
2 XIIT	25.4	55.1	7.6	10.4	1.43	14.1	4.9	1.07
3 XISC	22.2	43.1	5.3	15.5	13.92	12.0	6.7	1.33
4 XISR	26.3	62.7	3.8	6.2	1.01	13.5	4.6	1.11
5 XIIF	23.0	55.8	13.5	6.0	1.72	14.6	4.3	1.29
6 XISI	42.8	27.1	15.6	12.8	1.70	11.6	6.8	1.04
7 XIPI	19.1	65.7	9.4	4.0	1.76	16.0	3.9	1.18
8 XIIC	35.0	36.2	25.1	1.5	2.27	15.1	4.0	1.18
9 XIHD	20.3	62.2	2.3	13.7	1.50	11.5	5.9	1.12
10 XIJI	36.7	16.1	20.7	24.9	1.56	12.0	5.5	1.10
11 XIML	19.7	74.6	0.0	3.9	1.79	13.4	4.7	1.11
12 XIID	25.1	55.9	7.5	10.3	1.19	14.3	5.2	1.07
13 XIFE	26.2	58.7	6.0	7.5	1.45	13.2	4.3	1.14
Index								
IDX80	34.3	41.3	12.9	11.5		12.6	4.6	
JCI	29.7	41.1	14.5	14.6		12.7	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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