

S&P500 Index rose to a new 52-week high as US inflation rates eased

Global stock markets bounced back strongly, with US S&P500 Index rising to a new 52-week high this week, amid economic data releases showing US inflation rates cooling down more than expected. The S&P500 Index is now at just 6.5% below its all time high achieved in early 2022. Bond yields also reversed course as 2-yr and 10-yr US Treasury yields fell to 4.77% (-18bps) and 3.83% (-23bps), respectively. Both the headline and core US consumer price index (CPI) inflation slowed to 3.0% / 4.8% YoY in June, respectively, better than expectations. The monthly core inflation dropped to 0.2% MoM in June, after averaging 0.42% in the prior six months - this was the smallest 1-month increase in that index since August 2021. The subsequently released data on producer price inflation (PPI) was even more encouraging as US headline and core PPI rose by only 0.1% and 2.4% YoY in June, respectively, which was close to the Fed's 2% inflation target, thus easing concerns about further interest-rate increases. Meanwhile, a survey of consumers by the University of Michigan showed the consumer sentiment index rose for a second month to 72.6 in July (June: 64.4; May: 59.2), which was its highest level since September 2021, raising expectations of a soft landing of US economy. In the week ahead, market's focus will likely be on US retail sales data release, which is expected to sustain positive momentum with 0.5% MoM growth in June, after 0.3% / 0.4% growth in May and April, respectively, despite inflationary pressures, after a larger negative growth in February-March 2023.

In Indonesia, JCI gained 2.28% this week amid foreign fund inflows (Rp1.03Tn), led by the rate-sensitive property sector as well as the laggard sectors such as healthcare, technology, energy, and coal mining. In bond market, 10-yr yields eased marginally to 6.19% (-5bps) amid returning foreign inflows.

The Week Ahead – China GDP, US Retail Sales, Fed Barr Speech

The key economic data to focus next week are China GDP Growth (Mon 09:00), US Retail Sales (Tue 19:30), Fed Barr Speech (Tue 21:00), EU Inflation Rate (Wed 16:00), US Housing Starts (Wed 19:30), 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 since 2022 and investor concerns have shifted from inflation to growth to inflation again amid surprisingly resilient US economy. However, with the Fed Fund's rate close to peaking and a Fed pivot to easing now expected in early 2024 (delayed from late 2023), we see catalysts for JCI to achieve our 7,400 target given Indonesia's stable economy, financial markets and currency expectations, as reflected in the more than halving of IDR currency risk premiums (vs. USD). Indonesia's equity market has lagged global markets in 2023, partly because it remained stable and outperformed in 2022 when the developed equity markets corrected due to Fed's aggressive rate hikes and its impact on economic growth. Our JCI target of 7,400 is 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	34,509.03	2.29%	4.11%
S&P 500	4,505.42	2.42%	17.34%
Nasdaq	14,113.70	3.32%	34.85%
FTSE 100	7,434.57	2.45%	-0.23%
DAX	16,105.07	3.22%	15.67%
Nikkei 225	32,391.26	0.01%	24.13%
Hang Seng	19,413.78	5.71%	-1.86%
Shanghai	3,237.70	1.29%	4.81%
MSCI World	3,017.94	3.21%	15.95%
MSCI Emerging Markets	1,028.49	4.88%	7.54%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	760.61	3.67%	6.94%
Consumer Cyclical	916.08	0.05%	7.66%
Transportation	1,927.88	0.48%	16.00%
Industrials	1,196.73	0.70%	1.91%
Technology	4,945.59	4.26%	-4.19%
Infrastructures	857.10	-0.49%	-1.33%
Financials	1,432.30	1.27%	1.23%
Consumer Non-Cyclicals	762.23	1.30%	6.37%
Healthcare	1,566.21	6.00%	0.08%
JCI	6,869.57	2.28%	0.28%
Energy	1,863.89	2.55%	-18.23%
Basic Materials	1,044.56	1.81%	-14.11%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.77	-18 bps	34 bps
UST 10Y Yield	3.83	-23 bps	-4 bps
Ind GB 10Y Yield	6.19	-5 bps	-75 bps
USDIDR	15,003.00	-132	-433
CDS Indo 5Y	81.72	-7.33	-15.24

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.03Tn	+13.1Tn
Government Bond Market (Rp)	+0.65Bn	+81.20Tn

Commodities	Last	1W	YTD
WTI	76.83	4.02%	-4.27%
Brent	81.31	3.62%	-5.35%
CPO (Malaysia)	3,877.00	5.50%	0.21%
Coal (New Castle)	131.65	-5.73%	-67.43%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,090.36	1.60%	7.06%
XIIT	IDX30	567.71	1.69%	6.91%
XIJI	JII	637.21	1.07%	-1.62%
XISI	SMInfra18	369.32	1.00%	6.94%
XISR	SriKehati	489.81	1.62%	10.73%
XIHD	IDXHIDIV20	660.89	1.42%	9.25%
XIPI	Pefindo I-Grade	223.76	1.62%	8.14%
XIML	MSCI Indo Large Cap	304.29	1.74%	9.29%
XIID	IDX30	551.05	1.63%	6.37%
XIFE	FTSE ESG Indonesia	119.94	1.86%	5.67%
XIIC	Consumer Related	1,066.00	1.95%	7.16%
XIIF	Rate Sensitive	544.49	1.42%	5.93%
XISC	BUMN Stocks	733.94	0.98%	2.80%
XISB	Sovereign Bonds	501.09	0.66%	8.59%

Conventional				
RDMP	Equity	909.86	1.28%	5.87%
RPCF	Balanced	2,649.39	0.97%	4.51%
RDPO 2	Fixed Income	1,077.62	0.10%	2.81%
RDPU 2	Money Market	1,416.23	0.09%	2.25%

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	24.4	53.9	11.4	9.4	0.78	14.8	4.0	1.14
2 XIIT	24.8	56.2	8.0	10.3	0.70	14.4	4.2	1.07
3 XISC	21.7	43.0	5.9	13.6	15.66	12.1	5.3	1.33
4 XISR	26.0	62.9	4.2	6.2	0.64	13.7	4.5	1.11
5 XIIF	22.7	55.7	14.9	6.1	0.66	11.6	4.2	1.29
6 XISI	42.7	27.0	16.6	13.1	0.55	11.8	5.4	1.04
7 XIPI	19.2	64.5	10.2	4.4	1.64	16.3	3.8	1.18
8 XIIC	34.1	36.0	26.7	1.6	1.59	15.4	3.9	1.18
9 XIHD	20.0	62.1	2.4	12.3	3.19	11.7	5.1	1.12
10 XIJI	36.0	15.4	21.2	24.9	2.37	12.3	4.1	1.10
11 XIML	19.6	75.8	0.0	4.1	0.54	13.6	4.7	1.11
12 XIID	24.7	56.2	8.0	10.3	0.92	14.6	4.5	1.07
13 XIFE	25.8	58.6	6.8	7.5	1.43	14.2	4.3	1.14
Index								
IDX80	34.2	41.0	13.3	11.5		12.9	4.6	
JCI	29.7	41.1	14.5	14.6		13.0	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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