

US is on the path to a soft landing amid resilient growth, cooling inflation

The rally in the global stock markets was sustained this week as hopes grow for a soft landing while expectations for further rate hikes were tempered by Fed's benign policy statement and cooling US inflation. In Q2 2023, the US economy expanded at an annualised 2.4% QoQ, higher than 2.0% in Q1, and well above market expectations of 1.8%. The stronger growth was driven by nonresidential fixed investments amid sharp slowdown in consumer spending as US economy managed to skirt a recession. The strong growth amid tight labor market didn't lead to rate hike worries this time as expectations grew that the Fed was done raising rates as Fed Chair Powell stated after the meeting that further changes to interest rates would be guided by incoming data. Market expectations were confirmed on Friday after data release of US PCE Price Index, an inflation metric preferred by Fed, indicating further easing of inflation. The Core PCE Price Index grew at 0.2% MoM in June, easing from 0.3% in May and 0.4% in April, while its annual rate slowed to 4.1%, from 4.6% in May. The headline PCE inflation eased to 3.0% in June, from 3.8% in May. During its previous meeting in June, the Fed revised up its Core PCE inflation projection to 3.9% for Q4 2023 (from 3.6% in its March meeting) and this inflation data seems on track to achieve or improve upon Fed's projection. In the week ahead, market's attention will likely focus on the release of US Jobs Reports (ADP Employment, Non Farm Payrolls).

In Indonesia, JCI rose slightly by 0.28% amid a small fund inflows (+Rp887Bn) and mixed sectoral returns, while 10-yr yields rose marginally to 6.27% (+3bps). Gainers include basic materials and energy stocks while losers were technology, property, consumer and healthcare sectors.

The Week Ahead – EU GDP Growth, Indonesia Inflation, US Jobs Reports

The key economic data to focus next week include China NBS Manufacturing & Non-Manufact PMI (Mon 08:30), EU GDP Growth & Inflation Rates (Mon 16:00), China Caixin Manufact. PMI (Tue 08:45), Indonesia Inflation Rate (Tue 11:00), US ISM Manufacturing PMI (Tue 21:00), US ADP Employment (Wed 19:15), China Caixin Services PMI (Thu 08:45), US Jobless Claims (Thu 19:30), US ISM Services PMI (Thu 21:00), US Non Farm Payrolls and Unemployment Rate (Fri 19:30).

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 (pushed back from Q4 2023), we see positive 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 since 2022, due to their overweight of banking sector, and more importantly, these two ETFs have no exposure to technology stocks, which we view as posing considerable risk to fund performances at time of rising interest rates globally. Our two other top ETF picks are XIIML (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	35,459.29	0.66%	6.98%
S&P 500	4,582.23	1.01%	19.34%
Nasdaq	14,316.00	2.02%	36.78%
FTSE 100	7,694.27	0.40%	3.25%
DAX	16,469.75	1.81%	18.29%
Nikkei 225	32,759.20	1.41%	25.54%
Hang Seng	19,923.50	4.45%	0.72%
Shanghai	3,275.93	3.42%	6.04%
MSCI World	3,057.84	0.96%	17.49%
MSCI Emerging Markets	1,043.20	2.82%	9.08%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	753.47	-1.97%	5.94%
Consumer Cyclical	928.28	0.12%	9.09%
Transportation	1,928.29	-0.24%	16.03%
Industrials	1,198.01	0.76%	2.02%
Technology	4,707.00	-2.19%	-8.82%
Infrastructures	850.78	-0.68%	-2.06%
Financials	1,433.46	0.00%	1.31%
Consumer Non-Cyclicals	752.63	-1.22%	5.03%
Healthcare	1,529.82	-1.54%	-2.25%
JCI	6,900.23	0.28%	0.72%
Energy	1,947.33	1.69%	-14.57%
Basic Materials	1,076.63	2.35%	-11.47%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.89	5 bps	46 bps
UST 10Y Yield	3.96	12 bps	8 bps
Ind GB 10Y Yield	6.27	3 bps	-67 bps
USDIDR	15,107.50	82.5	-543
CDS Indo 5Y	74.63	-7.42	-22.33

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+886.9Bn	+15.5Tn
Government Bond Market (Rp)	+8.22Tn	+94.41Tn

Commodities	Last	1W	YTD
WTI	80.67	4.67%	0.51%
Brent	83.86	3.44%	-2.39%
CPO (Malaysia)	4,003.00	2.77%	3.46%
Coal (New Castle)	139.00	4.51%	-65.61%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,088.27	-0.18%	6.85%
XIIT	IDX30	566.79	-0.20%	6.74%
XIJI	JII	626.55	-0.65%	-3.27%
XISI	SMInfra18	373.74	0.76%	8.21%
XISR	SriKehati	488.93	0.04%	10.54%
XIHD	IDXHIDIV20	665.31	0.39%	9.98%
XIPI	Pefindo I-Grade	224.51	-0.26%	8.50%
XIIML	MSCI Indo Large Cap	304.94	0.14%	9.52%
XIID	IDX30	549.44	-0.25%	6.06%
XIFE	FTSE ESG Indonesia	119.45	-0.46%	5.24%
XIIC	Consumer Related	1,057.05	-0.98%	6.26%
XIIF	Rate Sensitive	542.03	-0.50%	5.45%
XISC	BUMN Stocks	730.16	-1.04%	2.27%
XISB	Sovereign Bonds	498.15	-0.41%	7.95%

Conventional	Last	1W	YTD	
RDMP	Equity	913.59	-0.09%	6.30%
RPCF	Balanced	2,658.53	0.04%	4.87%
RDPO 2	Fixed Income	1,079.80	0.10%	3.02%
RDPU 2	Money Market	1,418.69	0.09%	2.43%

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	23.3	54.9	11.0	9.8	1.09	14.8	4.0	1.14
2 XIIT	23.3	57.2	7.7	10.8	0.96	14.4	4.2	1.07
3 XISC	22.3	44.0	5.8	15.4	12.53	12.2	5.3	1.33
4 XISR	24.7	64.1	4.1	6.5	0.61	13.7	4.5	1.11
5 XIIF	22.1	55.5	12.8	8.4	1.07	11.6	4.2	1.29
6 XISI	41.1	27.6	16.2	14.6	0.39	12.0	5.4	1.04
7 XIPI	18.1	65.2	10.0	4.5	2.31	16.4	3.8	1.18
8 XIIC	33.3	37.1	25.0	1.6	3.04	15.2	3.9	1.18
9 XIHD	19.0	63.0	2.4	12.9	2.66	11.7	5.1	1.12
10 XIJI	35.5	15.7	21.4	26.7	0.72	12.1	4.1	1.10
11 XIML	18.6	76.5	0.0	4.4	0.44	13.6	4.7	1.11
12 XIID	23.3	57.2	7.7	10.8	1.06	14.6	4.5	1.07
13 XIFE	24.7	60.0	6.8	7.7	0.78	14.2	4.3	1.14
Index								
IDX80	33.1	41.7	13.1	12.0		12.9	4.6	
JCI	28.7	38.8	14.7	15.4		12.9	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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Devandra Harahap	Institutional Marketing	devan.harahap@ipc.co.id	Ext. 2315	0856-1167-750
Dewi Rijanti Suherman	Institutional Marketing	dewi.suherman@ipc.co.id	Ext. 2313	0812-9665-7019

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