

**Fed to hike rate 3 times in 2022, Omicron led to new restrictions in Europe**

Stocks fell across the world, led by US markets, while volatility returns this week as central banks in US and UK announced policy shifts in response to persistent inflation. US producer prices jumped 0.8% MoM (+9.6% YoY) in November, well above consensus expectations of 0.5% and 9.2%, respectively. The upward shift in rate expectations has been particularly negative on US growth stocks and the technology sector. The Fed's meeting on 14-15 December decided to accelerate tapering of its bond purchases, which will now end in March 2022 (instead of June), while also signaling a more aggressive rate hike timeline in coming years. A majority of Fed's policymaking officials now expect three rate increases of 0.25% each in 2022 (instead of two), with the policy rate now projected to rise to 0.9% in 2022 (1.6% in 2023) or 60bps higher than previously expected. The Bank of England unexpectedly raised its key rate this week, as also several other central banks in Europe and Latin America, while the ECB decided to scale back its emergency bond buying but stated a rate increase is very unlikely next year. Meanwhile, surging Covid cases and rapid spread of the Omicron variant have led to tightening restrictions across Europe. Headlines surrounding the Omicron have caused risk sentiment to weaken, thus pushing 10-yr US Treasury yields lower to 1.41% (-8bps) while EM bond yields were still trending up.

In Indonesia, JCI fell 0.77% as foreign selling continued (-Rp1.18Tn) while the bond market continued to suffer from sustained outflows (-Rp5.12Tn). Major stocks in technology, property, construction, basic materials, auto, consumer and telecom sectors declined the steepest while only a few select stocks in the coal, telecom and banking sectors performed well. News of Indonesia's first reported Omicron cases contributed to the negative market sentiment.

**The Week Ahead – US Durable Goods Orders, Personal Income & Spending**

The key economic data to focus next week are US CB Consumer Confidence, US Existing Home Sales (Wed 22:00), US Durable Goods Orders (Thu 20:30), US Initial Jobless Claims (Thu 20:30), US Personal Income & Spending (Thu 20:30), US PCE Price Index (Thu 20:30), and US New Home Sales (Thu 22:00).

**Investment Conclusion**

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets this year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected, Indonesia's country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 has been achieved but we believe there is scope for further upside (our 2022 JCI target is 7,400) given lagging performances of EM (including Indonesia) in comparison to DM equities. Global fund flows data showed that equity investors were returning to EM in 2021.

**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) to minimize volatility. Both XIPI and XISR have overweight positions in BBCA, widely considered as defensive stock at times of uncertainty. XIPI also has an overweight position in cyclical stocks, including in banking and basic materials sectors, and underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from an economic recovery while still maintaining defensiveness through its overweight exposure in BBCA. We also like ETF XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen during the past four months.

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	35,365.44	-1.68%	15.55%
S&P 500	4,620.64	-1.94%	23.02%
Nasdaq	15,169.68	-2.95%	17.70%
FTSE 100	7,269.92	-0.30%	12.53%
DAX	15,531.69	-0.59%	13.21%
Nikkei 225	28,545.68	0.38%	4.01%
Hang Seng	23,192.63	-4.38%	-14.83%
Shanghai	3,632.36	-1.11%	4.59%
MSCI World	3,139.75	-1.52%	16.72%
MSCI Emerging Markets	1,216.30	-1.80%	-5.81%

JCI Sector Indices	Last	1W	YTD
Transportation	1,692.90	8.50%	77.59%
Energy	1,107.73	1.00%	41.50%
Basic Materials	1,207.87	0.34%	-2.03%
Healthcare	1,438.82	-0.26%	9.80%
Financials	1,553.76	-0.38%	23.27%
Consumer Cyclical	879.55	-0.52%	18.40%
<b>JCI</b>	<b>6,601.93</b>	<b>-0.77%</b>	<b>10.42%</b>
Infrastructures	965.95	-2.23%	12.00%
Consumer Non-Cyclicals	663.38	-2.61%	-16.14%
Industrials	1,043.05	-2.80%	12.29%
Technology	8,728.09	-2.84%	683.65%
Property & Real Estate	783.25	-3.16%	-18.05%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.64	-1 bps	52 bps
UST 10Y Yield	1.41	-8 bps	49 bps
Ind GB 10Y Yield	6.44	13 bps	56 bps
USDIDR	14,368	-5	318
CDS Indo 5Y	76.50	-1.97	8.99

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.18Tn	+37.18Tn
Government Bond Market (Rp)	-5.12Tn	-79.60Tn

Commodities	Last	1W	YTD
WTI	70.29	-1.93%	44.87%
Brent	73.52	-2.17%	41.93%
CPO (Malaysia)	4,464.00	-2.55%	56.14%
Coal (New Castle)	168.50	2.90%	109.32%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,001.68	-0.82%	2.77%
XIIT	IDX30	532.35	-0.86%	2.69%
XIJJ	JII	598.91	-1.32%	-6.39%
XISI	SMInfra18	333.48	-2.35%	0.45%
XISR	SriKehati	384.82	-1.18%	1.46%
XIHD	IDXHIDIV20	496.00	-0.73%	7.97%
XIPI	Pefindo I-Grade	180.61	-0.34%	4.72%
XIML	MSCI Indo Large Cap	259.58	-0.44%	2.26%
XIID	IDX30	519.57	-0.88%	3.17%
XIFE	FTSE ESG Indonesia	103.59	-0.74%	-
XIIC	Consumer Related	978.20	-1.16%	-5.43%
XIIF	Rate Sensitive	534.51	-1.92%	-9.19%
XISC	BUMN Stocks	689.53	-2.08%	-9.67%
XISB	Sovereign Bonds	449.29	-0.31%	0.71%

Conventional	Last	1W	YTD	
RDMP	Equity	977.85	0.13%	-7.50%
RPCF	Balanced	2,888.88	0.25%	-3.24%
RDPU 2	Money Market	1,335.38	0.07%	3.96%

## Summary of Investment Characteristics &amp; 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	2022F	2022F	
1 RLQ45	27.0	50.0	12.7	10.1	0.20	17.6	2.7	1.14
2 XIIT	29.8	52.2	7.1	10.7	0.22	17.9	2.8	1.07
3 XISC	19.8	44.2	15.1	16.9	4.05	17.0	2.9	1.33
4 XISR	28.2	60.5	6.4	4.6	0.33	18.2	2.8	1.11
5 XIIF	13.4	54.0	30.3	0.0	2.25	21.1	2.2	1.29
6 XISI	53.4	16.6	17.3	11.2	1.51	16.6	3.3	1.04
7 XIPI	21.4	61.3	12.7	4.2	0.45	20.7	2.4	1.18
8 XIIC	33.1	41.2	18.7	4.3	2.60	21.2	2.3	1.09
9 XIHD	29.3	53.3	3.8	12.9	0.69	17.0	3.1	1.12
10 XIJI	48.9	0.9	29.9	19.8	0.53	17.8	2.5	1.10
11 XIIML	19.7	76.9	3.3	0.0	0.12	19.4	2.8	1.11
12 XIID	29.8	52.3	7.0	10.7	0.18	17.9	2.8	1.07
13 XIFE	31.1	57.2	5.0	6.4	0.26	17.0	2.9	1.14
<b>Index</b>								
IDX80	32.1	39.3	17.4	11.2		16.5	2.7	
JCI	31.3	41.6	16.9	10.2		18.7	1.8	

**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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