

Market reacted negatively upon release of FOMC minutes on Wednesday's afternoon & weak economic data

Global stocks began the new year with a solid footing until the day when The Fed released their minutes of meeting on Wednesday's afternoon (US 14:00), which poured cold water on the rally and led to a downward trend. Overall, US stocks fell (-1.87%) during this week. It is confirmed that federal funds rate will be increased at a faster pace than what was being anticipated. The median respondent's projected timing for the first increase for the fund rate moved from 1Q23 to June22. They also noted that almost all participants agreed that it would likely be appropriate to start reducing their balance sheet in a gradual manner after the first increase in the target range for the fed fund rates. US Economic Data also contributed to downside of US stocks as US ISM & Non-Manufacturing PMI decreased to 58.7 & 62 in December, from 61.1& 69.1 respectively in November (below cons: 60 & 66.9 respectively). US weekly initial jobless claims also rose to 207k from previously of 200k, worse than expected (205k). However, US ADP Employment Change shows a strong figure of 807k in December 2021, way much better than market consensus of 400k. This figure was driven mainly from trade, transportation and utilities sector, as well as professional and business services. Moreover, both US 2-yr & 10-yr Treasury yields were up to 0.87% (+14bps) and 1.77% (+26bps) respectively, responded to the release of minutes of meetings.

In Indonesia, JCI gained 1.82% on the back of large equity inflows (+Rp2.96Tn). Stocks in the technology, financials, and energy sectors were up significantly while consumer cyclicals, basic materials, property & real estates stocks were corrected the most.

The Week Ahead – US Inflation Rate, PPI & Initial Jobless Claims

The key economic data to focus next week are Indonesia Consumer Confidence (Tue 10:00), EU Industrial Production (Wed 17:00), US Inflation Rate (Wed 20:30), Indonesia Motorbike Sales (Wed 16:30), US Jobless Claims (Wed 20:30), US Producer Price Index (Wed 20:30), China Trade Balance (Fri 10:00), Indonesia Car Sales (Fri 17:15), US Retail Sales (Fri 20:30), and US Michigan Current Conditions, Inflation & Consumer Expectations (Fri 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	36,231.66	-0.29%	-0.29%
S&P 500	4,677.03	-1.87%	-1.87%
Nasdaq	14,935.90	-4.53%	-4.53%
FTSE 100	7,485.28	1.36%	1.36%
DAX	15,947.74	0.40%	0.40%
Nikkei 225	28,478.56	-1.09%	-1.09%
Hang Seng	23,493.38	0.41%	0.41%
Shanghai	3,579.54	-1.65%	-1.65%
MSCI World	3,177.54	-1.68%	-1.68%
MSCI Emerging Markets	1,226.10	-0.48%	-0.48%

JCI Sector Indices	Last	1W	YTD
Technology	9,491.19	5.52%	5.52%
Financials	1,589.64	4.11%	4.11%
Energy	1,172.83	2.93%	2.93%
Transportation	1,630.07	1.92%	1.92%
JCI	6,701.32	1.82%	1.82%
Healthcare	1,444.46	1.72%	1.72%
Consumer Non-Cyclicals	672.67	1.29%	1.29%
Industrials	1,044.09	0.71%	0.71%
Infrastructures	947.70	-1.21%	-1.21%
Property & Real Estate	757.68	-1.99%	-1.99%
Basic Materials	1,209.26	-2.04%	-2.04%
Consumer Cyclical	861.48	-4.32%	-4.32%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.87	14 bps	14 bps
UST 10Y Yield	1.77	26 bps	26 bps
Ind GB 10Y Yield	6.45	7 bps	7 bps
USDIDR	14,319	77	77
CDS Indo 5Y	77.92	3.37	3.37

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	2.96Tn	2.96Tn
Government Bond Market (Rp)	-1.64Tn	-1.64Tn

Commodities	Last	1W	YTD
WTI	78.90	2.48%	2.48%
Brent	81.75	3.06%	3.06%
CPO (Malaysia)	4,983.00	6.41%	6.41%
Coal (New Castle)	196.50	15.52%	15.52%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,014.41	2.05%	2.05%
XIIT	IDX30	539.09	2.17%	2.17%
XIJI	JII	612.39	2.08%	2.08%
XISI	SMLnfra18	327.73	-0.55%	-0.55%
XISR	SriKehati	387.10	1.87%	1.87%
XIHD	IDXHIDIV20	502.89	2.00%	2.00%
XIPI	Pefindo I-Grade	182.46	2.38%	2.38%
XIML	MSCI Indo Large Cap	261.63	2.63%	2.63%
XIID	IDX30	525.80	2.14%	2.14%
XIFE	FTSE ESG Indonesia	104.29	2.16%	2.16%
XIIC	Consumer Related	990.78	2.16%	2.16%
XIIF	Rate Sensitive	533.83	1.34%	1.34%
XISC	BUMN Stocks	680.17	0.67%	0.67%
XISB	Sovereign Bonds	447.88	-0.64%	-0.64%

Conventional	Last	1W	YTD	
RDMP	Equity	972.50	0.69%	0.69%
RPCF	Balanced	2,843.46	-0.26%	-0.26%
RDP2	Money Market	1,338.11	0.07%	0.07%

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	2022F	2022F	
1 RLQ45	26.6	49.9	12.7	10.5	0.30	15.2	2.7	1.14
2 XIIT	29.4	52.1	7.0	11.2	0.34	15.4	2.7	1.07
3 XISC	19.1	43.7	14.9	17.0	5.23	13.6	3.0	1.33
4 XISR	28.3	60.6	6.2	4.6	0.24	15.1	2.7	1.11
5 XIIF	13.3	54.7	30.0	0.0	2.10	17.4	2.2	1.29
6 XISI	52.4	17.0	18.7	11.5	0.31	13.7	3.4	1.04
7 XIPI	22.3	61.5	10.5	5.3	0.32	17.5	2.4	1.18
8 XIIC	32.4	41.5	18.6	4.6	2.87	17.9	2.3	1.09
9 XIHD	28.9	52.9	3.7	13.5	1.07	14.6	3.1	1.12
10 XIJI	48.6	0.9	29.4	20.3	0.82	17.1	2.5	1.10
11 XIIML	19.7	76.7	3.4	0.0	0.25	15.9	2.7	1.11
12 XIID	29.4	52.1	7.0	11.1	0.31	15.4	2.7	1.07
13 XIFE	30.7	57.5	4.9	6.6	0.25	14.6	2.8	1.14
Index								
IDX80	31.6	39.2	17.5	11.7		14.2	3.3	
JCI	30.5	42.8	16.6	10.2		16.0	2.1	

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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