

**Softening US economy brings hope for Fed to slow rate hikes**

Stock markets worldwide, except in some countries such as China and Japan, maintained their strong rebound this week as Fed's 75bps rate hike is already priced-in while softening of US economy is viewed positively as this could lead to Fed slowing rate hikes sooner-than-expected. Fed Chair Powell's statement post Wednesday's FOMC meeting, which noted a softening of US spending and production, is viewed as surprisingly dovish. This was followed on Thursday with the release of US GDP growth revealing the economy contracted at annual rate of 0.9% in Q2 (vs. Q1), weaker than expected (consensus forecast: +0.5%), which could imply a technical recession as the Q1 growth was already negative. Post the FOMC meeting, 10-yr US Treasury yields fell 10bps to 2.66%, below the 2-yr yields at 2.89%. Markets currently expect Fed to hike rate by 50bps in September, and by 25bps each in November/December to 3.25%-3.50% range at the end of 2022. However, markets now expect this rate would be the peak Fed Funds Rate before Fed started easing it in 2023. Meanwhile, US earnings season performed mostly better against already lowered expectations although forecasts are expected to continue to be revised lower, especially for 2023 figures. Elsewhere in Europe, the Eurozone economies expanded sequentially at a higher-than-expected rate of 0.7% in Q2 (4% YoY) although the inflation rate was also above expectations at 8.9% YoY in July.

In Indonesia, JCI gained 0.93% amid foreign outflows of Rp0.96Tn with most of the sectors gaining except for technology, healthcare and consumer sectors. In bond market, foreign outflows continued (Rp1.52Tn this week; YTD: Rp141.8Tn) although the 10-yr SUN yields eased to 7.20% (-29bps).

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

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

**Investment Conclusion**

Global equities have priced-in strong growth recovery since 2021 but the key issue for markets in the past 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 Fed tightening is already expected, Indonesia's country risk indicators have improved. We raised our 2022 JCI target to 7,800 (from 7,400) in May due to upgraded consensus earnings growth forecasts to 28% for 2022 (from 18%) due to stronger than expected Q1 earnings results. Our JCI target is based our forward P/E target of 15x, in line with 10-yr mean P/E before the pandemic. In addition, EM stocks (including Indonesia) are attractively valued as they well underperformed DM equities in 2021, despite benefiting from commodity price tailwinds.

**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 since the beginning of 2022.

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	32,845.13	2.97%	-9.61%
S&P 500	4,130.29	4.26%	-13.34%
Nasdaq	12,390.69	4.70%	-20.80%
FTSE 100	7,423.43	2.02%	0.53%
DAX	13,484.05	1.74%	-15.11%
Nikkei 225	27,801.64	-0.40%	-3.44%
Hang Seng	20,156.51	-2.03%	-13.85%
Shanghai	3,253.24	-0.51%	-10.62%
MSCI World	2,746.36	3.60%	-15.02%
MSCI Emerging Markets	993.78	0.34%	-19.34%

JCI Sector Indices	Last	1W	YTD
Industrials	1,308.51	7.77%	26.22%
Energy	1,857.72	7.71%	63.03%
Property & Real Estate	689.66	1.91%	-10.79%
Financials	1,499.84	1.82%	-1.77%
Consumer Cyclical	903.35	1.79%	0.33%
Infrastructures	988.71	1.34%	3.07%
<b>JCI</b>	<b>6,951.12</b>	<b>0.93%</b>	<b>5.62%</b>
Basic Materials	1,283.61	0.22%	3.99%
Transportation	1,964.07	-1.49%	22.80%
Consumer Non-Cyclicals	702.60	-2.90%	5.79%
Healthcare	1,453.47	-4.49%	2.35%
Technology	7,714.31	-4.53%	-14.23%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	2.89	-8 bps	216 bps
UST 10Y Yield	2.66	-10 bps	115 bps
Ind_GB 10Y Yield	7.20	-29 bps	82 bps
USDIDR	14,815	-162.6	573.4
CDS Indo 5Y	115.04	-22.20	40.49

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.96Tn	+46.55Tn
Government Bond Market (Rp)	-1.52Tn	-141.79Tn

Commodities	Last	1W	YTD
WTI	98.62	3.71%	28.09%
Brent	103.97	0.75%	31.08%
CPO (Malaysia)	4,289.00	15.79%	-8.41%
Coal (New Castle)	407.90	-0.32%	139.80%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,062.04	0.51%	6.84%
XIIT IDX30	564.81	0.58%	7.04%
XIJI JII	657.92	-0.17%	9.67%
XISI SMInfra18	358.48	2.25%	8.78%
XISR SriKehati	420.21	1.35%	10.58%
XIHD IDXHIDIV20	574.13	2.38%	16.45%
XIPI Pefindo i-Grade	192.66	1.36%	8.10%
XIML MSCI Indo Large Cap	263.57	1.25%	3.39%
XIID IDX30	549.09	0.50%	6.67%
XIFE FTSE ESG Indonesia	109.62	0.58%	7.38%
XIIC Consumer Related	974.47	-0.40%	0.47%
XIIF Rate Sensitive	518.81	1.63%	-1.51%
XISC BUMN Stocks	722.10	2.68%	6.87%
XISB Sovereign Bonds	443.01	2.85%	-1.72%

Conventional	Last	1W	YTD
RDMP Equity	916.62	1.06%	-5.10%
RPCF Balanced	2,684.52	0.53%	-5.83%
RDPO 2 Fixed Income	1,028.47	0.10%	
RDPU 2 Money Market	1,364.35	0.06%	2.03%

## 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	24.1	43.8	10.6	10.4	10.99	13.1	3.7	1.14
2 XIIT	26.0	45.4	5.8	10.7	12.06	13.6	3.5	1.07
3 XISC	19.2	38.4	11.5	17.4	13.50	12.2	4.3	1.33
4 XISR	26.9	58.4	8.9	5.4	0.43	14.4	3.6	1.11
5 XIIF	10.7	55.3	22.4	0.0	11.55	17.6	3.2	1.29
6 XISI	48.7	19.2	16.6	15.0	0.43	13.1	4.1	1.04
7 XIPI	21.7	61.2	11.2	5.4	0.50	16.4	3.0	1.18
8 XIIC	32.1	37.4	16.5	3.1	10.83	21.1	3.0	1.09
9 XIHD	24.6	54.7	3.4	16.5	0.83	12.6	4.1	1.12
10 XIJI	44.4	0.7	23.8	30.3	0.81	12.5	3.4	1.10
11 XIIML	19.4	76.8	3.2	0.0	0.60	15.3	3.6	1.11
12 XIID	26.2	45.2	5.8	10.7	12.11	13.6	3.6	1.07
13 XIFE	31.8	54.5	5.8	7.5	0.47	13.2	3.7	1.14
<b>Index</b>								
IDX80	37.7	35.9	13.2	13.2		15.3	3.1	
JCI	34.0	37.6	14.4	14.0		16.3	2.4	

**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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