

Fed's hawkish comment and resilient US economy fueled rate hike fears

Global stock markets retreated this week, after performing strongly in the prior week, on returning rate hike fears on the back of hawkish comment from a Fed official and resilient US economy. US retail sales, excluding auto segment, grew by 0.4% MoM in July (June: +0.9%), above consensus forecast of -0.1%, while industrial production grew robustly by 0.6% MoM, also higher than expected (cons.: 0.3%). Meanwhile, US existing home sales declined for sixth consecutive month to 4.81m in July (-5.9% MoM), although this was within expectations (cons.: 4.89m). As such, despite recession worries caused by high inflation and Fed rate hikes, the outlook of US economy may not be as bleak as suggested by the headline figures of US GDP's consecutive declines in the first and second quarters. Also fueling rate hike fears is Fed President James Bullard's statement during interview with the Wall Street Journal that he was likely to vote in favour of another 75-basis-point rate hike in the Fed's policy meeting in September, stating that "the idea that inflation has peaked is not really in the data at this point." Meanwhile, minutes from Fed's July meeting showed that policymakers agreed about the need to keep raising rates although there are concerns about lifting rate too fast and unduly weakening the economy. The bond markets also corrected on rate hike fears with 10-yr UST yield climbing to 2.98% (+13bps).

In Indonesia, JCI gained 0.61% as foreign inflows were still sustained this week at Rp2.72Tn (YTD: Rp55Tn), as also recorded in the bond market (Rp1.55Tn). Outperforming sectors were consumer non-cyclicals and industrials, while basic materials and financials were worst performing sectors this week.

The Week Ahead – BI Rate Decision, US Personal Income & Spending

The key economic data to focus next week are Indonesia Interest Rate Decision (Tue 14:30), EU Consumer Confidence and US New Home Sales (Tue 21:00), US Durable Goods Orders (Wed 19:30), US Initial Jobless Claims (Thu 19:30), US Personal Income & Spending, PCE Price Index (Fri 19:30), and Fed Chair Powell Speech (Fri 21:00) during the 3-day Jackson Hole Economic Symposium.

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 in May (from 7,400) due to upgraded consensus earnings growth forecasts to 28% for 2022 (from 18%) on the back of stronger than expected Q1 earnings results. Our JCI target is based our forward target P/E of 15x, in line with 10-yr mean P/E before the pandemic. In addition, we view Indonesian stocks as attractively valued due to underperformance vs. 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 BBKA, 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 BBKA. 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	33,706.74	-0.16%	-7.24%
S&P 500	4,228.48	-1.21%	-11.28%
Nasdaq	12,705.21	-2.62%	-18.79%
FTSE 100	7,550.37	0.66%	2.25%
DAX	13,544.52	-1.82%	-14.73%
Nikkei 225	28,930.33	1.34%	0.48%
Hang Seng	19,773.03	-2.00%	-15.49%
Shanghai	3,258.08	-0.57%	-10.49%
MSCI World	2,787.71	-1.65%	-13.74%
MSCI Emerging Markets	1,001.46	-1.51%	-18.71%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	713.09	1.36%	7.37%
Industrials	1,322.31	0.91%	27.55%
JCI	7,172.43	0.61%	8.98%
Property & Real Estate	715.57	0.49%	-7.44%
Energy	1,825.18	0.46%	60.17%
Healthcare	1,407.90	-0.46%	-0.86%
Technology	8,045.99	-0.46%	-10.54%
Consumer Cyclicals	894.77	-0.47%	-0.63%
Transportation	2,075.11	-0.63%	29.74%
Infrastructures	1,042.70	-0.76%	8.70%
Financials	1,506.22	-1.32%	-1.35%
Basic Materials	1,310.37	-3.16%	6.16%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.24	-1 bps	250 bps
UST 10Y Yield	2.98	13 bps	146 bps
Ind_GB 10Y Yield	7.09	12 bps	71 bps
USDIDR	14,875	213.9	633.4
CDS Indo 5Y	110.95	13.76	36.40

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.72Tn	+55.06Tn
Government Bond Market (Rp)	+1.55Tn	-123.03Tn

Commodities	Last	1W	YTD
WTI	89.91	-2.14%	16.78%
Brent	96.72	-1.46%	21.94%
CPO (Malaysia)	4,093.00	-7.13%	-12.60%
Coal (New Castle)	416.25	2.11%	144.71%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,112.18	1.25%	11.88%
XIIT IDX30	592.38	1.35%	12.27%
XIJI JII	674.86	-1.23%	12.49%
XISI SMInfra18	367.49	-0.55%	11.51%
XISR SriKehati	440.65	0.49%	15.96%
XIHD IDXHIDIV20	595.79	0.50%	20.85%
XIPI Pefindo i-Grade	201.61	0.09%	13.12%
XIML MSCI Indo Large Cap	277.42	0.50%	8.83%
XIID IDX30	575.58	1.32%	11.82%
XIFE FTSE ESG Indonesia	114.49	-0.34%	12.15%
XIIC Consumer Related	1,018.04	0.59%	4.97%
XIIF Rate Sensitive	544.90	0.25%	3.44%
XISC BUMN Stocks	741.43	-0.80%	9.74%
XISB Sovereign Bonds	444.68	-0.46%	-1.35%

Conventional	Last	1W	YTD
RDMP Equity	953.06	0.23%	-1.33%
RPCF Balanced	2,759.86	-0.30%	-3.19%
RDPO 2 Fixed Income	1,032.24	0.10%	
RDPU 2 Money Market	1,367.02	0.07%	2.23%

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	21.3	48.3	9.1	10.1	11.11	13.3	3.4	1.14
2 XIIT	22.1	49.7	5.1	10.8	12.30	13.6	3.4	1.07
3 XISC	19.3	39.8	11.8	15.7	13.31	12.5	4.2	1.33
4 XISR	26.2	59.3	8.6	5.5	0.41	14.7	3.4	1.11
5 XIIF	10.9	56.7	23.1	0.0	9.35	18.0	3.1	1.29
6 XISI	48.2	19.4	16.5	15.4	0.54	13.0	3.9	1.04
7 XIPI	22.3	61.2	10.7	5.4	0.40	16.9	2.9	1.18
8 XIIC	30.4	39.1	16.9	3.2	10.37	21.4	2.9	1.09
9 XIHD	24.1	56.4	3.2	15.4	0.93	12.8	4.0	1.12
10 XIJI	43.7	0.7	23.0	31.7	0.93	12.5	3.4	1.10
11 XIIML	19.4	77.2	3.0	0.0	0.45	15.7	3.4	1.11
12 XIID	22.1	49.7	5.1	10.9	12.24	13.8	3.5	1.07
13 XIFE	30.7	55.7	5.6	7.7	0.44	13.3	3.6	1.14
Index								
IDX80	38.2	36.0	13.0	12.8		16.2	2.9	
JCI	34.6	37.5	14.3	13.6		16.7	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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