

US jobs growth doubled expectations as Fed remains firm on inflation

The US markets-led global stocks rebound rally is cooling off this week, after a 7% rise of the S&P500 index in the prior two weeks, driven by expectations of peaking inflation and a sooner-than-expected slowdown in Fed rate hikes. With the US labor market continues to exceed expectations and Fed officials pushing back against a dovish market narrative, markets returned to prior concerns that the Fed will maintain aggressive monetary policy tightening to bring inflation under control. Friday's release of US non-farm payrolls report showing 528,000 of jobs were added in July (June: 398,000) were more than doubled consensus forecast of 250,000 jobs. As such, US unemployment rate improved further to 3.5% (June: 3.6%), or returning to its pre-pandemic level in February 2020, as US economy recouped the 22 million of jobs lost during the initial months of the pandemic. Correspondingly, US bond market corrected with 10-yr US Treasury yields climbing back to 2.83% this week (+17bps), as markets are pricing-in another outsized rate hike of 75bps in September with Fed Funds Rate peaking at 3.6% in March 2023. Meanwhile, US Q2 earnings performance continued to improve with an estimated aggregate earnings growth rate of 9.2% for S&P500 in Q2 2022, (or -1.5% if the energy sector is excluded), according to Refinitiv, due to better than expected results.

In Indonesia, JCI gained 1.92% as foreign inflows returned into both the equity (+Rp4.3Tn) and bond markets (+Rp10.24Tn). However, significant corrections in commodity prices (eg. crude oils, coal, palm oils) by 10-12%, the energy sector underperformed the most this week, followed by healthcare, consumer cyclicals and industrials sectors.

The Week Ahead – Indonesia Retail Sales, US CPI & PPI Inflation Data

The key economic data to focus next week include Indonesia Retail Sales (Tue 11:00), US Inflation rate (Wed 19:30), US Initial Jobless Claims (Thu 19:30), US Producer Price Index Inflation (Thu 19:30), US Michigan Consumer Sentiment Survey (Fri 21:00).

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 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	32,803.47	-0.13%	-9.73%
S&P 500	4,145.19	0.36%	-13.03%
Nasdaq	12,657.55	2.15%	-19.10%
FTSE 100	7,439.74	0.22%	0.75%
DAX	13,573.93	0.67%	-14.55%
Nikkei 225	28,175.87	1.35%	-2.14%
Hang Seng	20,201.94	0.23%	-13.66%
Shanghai	3,227.03	-0.81%	-11.34%
MSCI World	2,752.06	0.21%	-14.84%
MSCI Emerging Markets	1,002.87	0.91%	-18.60%

JCI Sector Indices	Last	1W	YTD
Transportation	2,064.05	5.09%	29.05%
Infrastructures	1,038.20	5.01%	8.23%
Technology	8,074.65	4.67%	-10.23%
Basic Materials	1,315.05	2.45%	6.53%
JCI	7,084.66	1.92%	7.65%
Financials	1,524.23	1.63%	-0.17%
Property & Real Estate	696.06	0.93%	-9.96%
Consumer Non-Cyclicals	703.81	0.17%	5.97%
Industrials	1,305.32	-0.24%	25.91%
Consumer Cyclicals	898.55	-0.53%	-0.21%
Healthcare	1,422.82	-2.11%	0.19%
Energy	1,767.91	-4.83%	55.15%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.23	34 bps	250 bps
UST 10Y Yield	2.83	17 bps	132 bps
Ind GB 10Y Yield	7.14	-5 bps	76 bps
USDIDR	14,946	130.6	704
CDS Indo 5Y	117.26	2.22	42.71

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.3Tn	+50.85Tn
Government Bond Market (Rp)	+10.24Tn	-129.86Tn

Commodities	Last	1W	YTD
WTI	88.53	-10.23%	14.99%
Brent	94.92	-8.70%	19.67%
CPO (Malaysia)	3,878.00	-9.58%	-17.19%
Coal (New Castle)	361.00	-11.50%	112.23%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,093.79	2.99%	10.03%
XIIT IDX30	582.16	3.07%	10.33%
XIJI JII	677.47	2.97%	12.93%
XISI SMlnfra18	370.22	3.27%	12.34%
XISR SriKehati	434.79	3.47%	14.42%
XIHD IDXHIDIV20	590.86	2.91%	19.85%
XIPI Pefindo I-Grade	200.36	4.00%	12.41%
XIML MSCI Indo Large Cap	275.36	4.47%	8.02%
XIID IDX30	566.01	3.08%	9.96%
XIFE FTSE ESG Indonesia	114.13	4.11%	11.80%
XIIC Consumer Related	1,000.17	2.64%	3.12%
XIIF Rate Sensitive	533.80	2.89%	1.33%
XISC BUMN Stocks	731.24	1.27%	8.23%
XISB Sovereign Bonds	442.69	-0.07%	-1.79%

Conventional	Last	1W	YTD
RDMP Equity	939.69	2.52%	-2.71%
RPCF Balanced	2,741.42	2.12%	-3.84%
RDPO 2 Fixed Income	1,029.78	0.13%	
RDPU 2 Money Market	1,365.15	0.06%	2.09%

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	13.5	3.4	1.14
2 XIIT	26.0	45.4	5.8	10.7	12.06	13.8	3.4	1.07
3 XISC	19.2	38.4	11.5	17.4	13.50	12.6	4.2	1.33
4 XISR	26.9	58.4	8.9	5.4	0.43	14.8	3.4	1.11
5 XIIF	10.7	55.3	22.4	0.0	11.55	18.4	3.1	1.29
6 XISI	48.7	19.2	16.6	15.0	0.43	13.4	3.9	1.04
7 XIPI	21.7	61.2	11.2	5.4	0.50	16.9	2.9	1.18
8 XIIC	32.1	37.4	16.5	3.1	10.83	21.7	2.9	1.09
9 XIHD	24.6	54.7	3.4	16.5	0.83	13.0	4.0	1.12
10 XIJI	44.4	0.7	23.8	30.3	0.81	12.9	3.3	1.10
11 XIIML	19.4	76.8	3.2	0.0	0.60	15.9	3.4	1.11
12 XIID	26.2	45.2	5.8	10.7	12.11	14.0	3.5	1.07
13 XIFE	31.8	54.5	5.8	7.5	0.47	13.6	3.6	1.14
Index								
IDX80	37.9	36.1	13.2	12.8		16.2	2.9	
JCI	34.2	37.9	14.4	13.4		16.8	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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