

Recession fears as projected Fed rate hikes worsen yield curve inversion

Global markets, both stocks and bonds, tumbled to 52-week lows after the Fed announced another 75-basis-point hike to bring policy rate to 3.0-3.25% range, bringing the world's major stock indices to steep declines averaging 25% so far in 2022. While the magnitude of this month's rate hike is well anticipated by markets, unexpected is revelation from FOMC Minutes on consensus (median) projections of Fed's members for Fed Fund's rate to rise to 4.4% in 2022; 4.6% in 2023, which are respectively 100bps/80bps higher than the projections made during the Fed's June meeting. It implies rate hikes of at least another 125bps in the last two meetings of 2022. With many of the world's major central banks rapidly raising interest rates, recession fears are growing as also reflected in the US yield curve inversion and further falls in oil prices this week. The price of US crude oil (WTI) fell 7.8% to below \$80 per barrel, from as high as \$120 in June. In bond market, the policy-rate sensitive 2-yr UST yield rose to 4.20% (+33bps), its highest since 2007, while 10-yr yield climbed to 3.69% (+23bps). Meanwhile, Fed's economic projections revised down US GDP growth to 0.2% and 1.2% for 2022 and 2023, respectively, both from forecasts of 1.7% in the June meeting. Going forward, markets will likely continue to look for signs of inflation easing, including from next Friday's release of US PCE Price Index for August.

In Indonesia, JCI gained 0.14% amid major corrections in global markets and despite foreign outflows (-Rp1.97Tn) and BI's unexpected 50bps rate hike. This makes Indonesian stocks among most resilient stock markets globally in 2022. Consumer and healthcare sectors are the only sectors gaining this week.

The Week Ahead – Indo Inflation, US PCE Price Index & Personal Spending

The key economic data to focus next week are US Durable Goods Orders (Tue 19:30), US New Home Sales (Tue 21:00), US Initial Jobless Claims (Thu 19:30), China NBS & Caixin PMI surveys (Fri 08:30), Indonesia Inflation Rate (Fri 09:00), EU Inflation Rate (Fri 16:00), US PCE Price Index (Fri 19:30), US Personal Income and Spending (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 in May (from 7,400) due to upgraded consensus earnings growth forecasts to 34% for 2022 (from 18%) on the back of stronger than expected H1 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	29,590.41	-4.00%	-18.57%
S&P 500	3,693.23	-4.65%	-22.51%
Nasdaq	10,867.93	-5.07%	-30.53%
FTSE 100	7,018.60	-3.01%	-4.96%
DAX	12,284.19	-3.59%	-22.67%
Nikkei 225	27,153.83	-1.50%	-5.69%
Hang Seng	17,933.27	-4.42%	-23.35%
Shanghai	3,088.37	-1.22%	-15.15%
MSCI World	2,438.50	-5.09%	-24.55%
MSCI Emerging Markets	905.84	-4.05%	-26.47%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,465.26	1.11%	3.18%
Consumer Non-Cyclicals	708.57	0.86%	6.69%
JCI	7,178.58	0.14%	9.07%
Basic Materials	1,301.65	-0.19%	5.45%
Financials	1,505.11	-0.50%	-1.42%
Consumer Cyclical	875.32	-0.54%	-2.79%
Industrials	1,355.13	-0.61%	30.72%
Infrastructures	1,017.76	-0.92%	6.10%
Technology	7,385.64	-1.31%	-17.89%
Energy	1,991.67	-2.12%	74.79%
Transportation	1,861.89	-2.19%	16.41%
Property & Real Estate	712.23	-3.37%	-7.87%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.20	33 bps	314 bps
UST 10Y Yield	3.69	23 bps	194 bps
Ind_GB 10Y Yield	7.27	6 bps	83 bps
USDIDR	15,112.10	112.90	757.2
CDS Indo 5Y	111.84	14.88	37.29

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.97Tn	+67.95Tn
Government Bond Market (Rp)	-4.16Tn	-148.11Tn

Commodities	Last	1W	YTD
WTI	78.74	-7.80%	2.27%
Brent	88.61	-3.41%	11.71%
CPO (Malaysia)	3,736.00	0.32%	-20.22%
Coal (New Castle)	435.65	-0.76%	156.11%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,116.97	0.89%	12.36%
XIIT IDX30	589.90	0.74%	11.80%
XIJI JII	691.99	0.31%	15.35%
XISI SMInfra18	378.24	0.36%	14.77%
XISR SriKehati	452.99	0.34%	19.21%
XIHD IDXHIDIV20	618.13	0.28%	25.38%
XIPI Pefindo I-Grade	207.60	0.03%	16.48%
XIML MSCI Indo Large Cap	282.37	0.20%	10.77%
XIID IDX30	571.92	0.69%	11.10%
XIFE FTSE ESG Indonesia	117.16	-0.15%	14.77%
XIIC Consumer Related	1,023.58	-0.16%	5.54%
XIIF Rate Sensitive	552.07	-0.90%	4.80%
XISC BUMN Stocks	751.67	-0.68%	11.25%
XISB Sovereign Bonds	439.97	-0.77%	-2.39%

Conventional	Last	1W	YTD
RDMP Equity	948.44	0.26%	-1.81%
RPCF Balanced	2,695.91	0.07%	-5.43%
RDPO 2 Fixed Income	1,037.16	0.10%	
RDPU 2 Money Market	1,371.51	0.07%	2.57%

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	21.0	50.3	9.3	11.0	8.35	13.4	3.3	1.14
2 XIIT	21.9	52.1	5.0	11.7	9.28	13.7	3.4	1.07
3 XISC	19.1	40.0	12.1	15.5	13.24	12.8	4.2	1.33
4 XISR	24.0	61.4	8.6	5.7	0.31	14.9	3.4	1.11
5 XIIF	10.1	57.3	24.1	0.0	8.51	18.1	3.0	1.29
6 XISI	44.4	20.4	17.5	17.2	0.46	13.1	3.9	1.04
7 XIPI	20.7	62.8	10.9	5.3	0.29	17.4	2.8	1.18
8 XIIC	30.0	40.2	17.7	3.1	9.01	21.5	2.8	1.09
9 XIHD	22.6	57.2	2.9	16.5	0.78	13.1	3.9	1.12
10 XIJI	42.5	0.7	23.3	33.1	0.45	12.6	3.4	1.10
11 XIIML	18.3	78.7	2.7	0.0	0.29	16.0	3.4	1.11
12 XIID	22.0	52.2	5.0	11.7	9.07	14.0	3.4	1.07
13 XIFE	29.2	56.8	5.6	8.1	0.30	13.6	3.6	1.14
Index								
IDX80	36.0	38.1	12.1	13.9		15.4	3.0	
JCI	32.6	38.9	14.3	14.2		15.8	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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