

**Hawkish Fed and resilient job reports led to a shift in Fed rate forecasts**

Global financial markets are bracing for more Fed rate hikes following Fed Chair Powell's hawkish policy speech at Jackson Hole economic symposium, which were also echoed by statements by other Fed officials this week. Global equity markets fell by over 3% this week while bond yields rose as US jobs reports this week indicated a resilient economy and labor market. US unemployment rate is ticking up modestly to 3.7% in August (July: 3.5%) as 315,000 jobs were added last month (cons.: 300,000 jobs), albeit down from unexpectedly high 526,000 jobs in the prior month. An ISM survey of manufacturing activity reported a PMI index of 52.8 in August, unchanged from July, but was better than expected. Markets are still forecasting 75-basis-point (0.75%) rate hike at FOMC meeting in September, followed by two more modest rate hikes to bring Fed Fund's rate to 4.0% by December 2022 (from 2.5% currently). However, markets no longer expect any rate cut in 2023, in line with Powell's push back against such market expectations, at least until inflation comes down significantly. Given the shift in rate forecasts, 10-yr UST yield climbed to 3.20% (+17bps) while the 2-yr yield rose more modestly to 3.40%. Going forward, investors will focus on inflation in coming months for signs of diminishing pressures in light of recent corrections in commodity prices.

In Indonesia, JCI was up modestly by 0.59% this week amid continued foreign inflows (+Rp1.72Tn), unlike bond market, which reported outflows of Rp4.98Tn. Technology was the hardest hit equity sector (-4.91%) this week, followed by consumer cyclicals and property sectors.

**The Week Ahead – Fed Speeches, ECB Rate Decision, Indonesia Retail Sales**

The key economic data to focus next week includes China Caixin Services PMI (Mon 08:45), EU Retail Sales (Mon 16:00), US ISM Non-Manuf. PMI (Tue 21:00), Fed Brainard Speech (Wed 23:35), Indonesia Consumer Confidence (Thu 10:00), ECB Interest Rate Decision (Thu 19:15), US Initial Jobless Claims (Thu 19:30), Fed Powell Speech (Thu 20:10), Indonesia Retail Sales (Fri 10:00).

**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 on 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	31,318.44	-2.99%	-13.81%
S&P 500	3,924.26	-3.29%	-17.66%
Nasdaq	11,630.86	-4.21%	-25.66%
FTSE 100	7,281.19	-1.97%	-1.40%
DAX	13,050.27	0.61%	-17.84%
Nikkei 225	27,650.84	-3.46%	-3.96%
Hang Seng	19,452.09	-3.56%	-16.86%
Shanghai	3,186.48	-1.54%	-12.45%
MSCI World	2,605.21	-3.32%	-19.39%
MSCI Emerging Markets	972.02	-3.43%	-21.10%

JCI Sector Indices	Last	1W	YTD
Industrials	1,335.91	2.21%	28.86%
Healthcare	1,432.45	1.94%	0.87%
Energy	1,939.02	1.82%	70.16%
Financials	1,519.59	1.33%	-0.48%
Infrastructures	1,044.42	0.85%	8.88%
<b>JCI</b>	<b>7,177.18</b>	<b>0.59%</b>	<b>9.05%</b>
Consumer Non-Cyclicals	709.76	0.14%	6.87%
Basic Materials	1,290.86	-0.18%	4.58%
Transportation	1,962.78	-0.80%	22.72%
Property & Real Estate	704.97	-1.05%	-8.81%
Consumer Cyclicals	882.66	-1.20%	-1.97%
Technology	7,585.34	-4.91%	-15.67%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	3.40	1 bps	266 bps
UST 10Y Yield	3.20	17 bps	168 bps
Ind_GB 10Y Yield	7.14	7 bps	76 bps
USDIDR	14,892	39.3	650.3
CDS Indo 5Y	119.68	22.72	45.13

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.72Tn	+61.89Tn
Government Bond Market (Rp)	-4.98Tn	-131.83Tn

\*data is not available at the moment

Commodities	Last	1W	YTD
WTI	87.25	-6.15%	13.33%
Brent	93.18	-7.73%	17.47%
CPO (Malaysia)	3,915.00	-6.16%	-16.40%
Coal (New Castle)	435.00	4.22%	155.73%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,109.31	0.82%	11.59%
XIIT IDX30	588.69	0.72%	11.57%
XIJI JII	681.08	0.86%	13.53%
XISI SMIInfra18	375.68	1.13%	14.00%
XISR SriKehati	446.31	2.18%	17.45%
XIHD IDXHIDIV20	610.64	2.81%	23.86%
XIPI Pefindo I-Grade	204.20	2.33%	14.57%
XIML MSCI Indo Large Cap	281.00	2.61%	10.23%
XIID IDX30	571.54	0.68%	11.03%
XIFE FTSE ESG Indonesia	116.10	1.91%	13.73%
XIIC Consumer Related	1,011.41	0.82%	4.28%
XIIF Rate Sensitive	545.69	0.98%	3.59%
XISC BUMN Stocks	747.01	0.74%	10.56%
XISB Sovereign Bonds	443.18	-0.12%	-1.68%

Conventional	Last	1W	YTD
RDMP Equity	947.12	0.59%	-1.94%
RPCF Balanced	2,720.91	-0.16%	-4.56%
RDPO 2 Fixed Income	1,034.12	0.08%	
RDPU 2 Money Market	1,368.72	0.06%	2.36%

## Summary of Investment Characteristics &amp; 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	21.4	49.5	9.2	10.5	9.50	13.2	3.4	1.14
2 XIIT	22.2	51.1	5.1	11.1	10.53	13.5	3.4	1.07
3 XISC	19.6	40.3	11.6	15.3	13.27	12.7	4.1	1.33
4 XISR	24.4	61.0	8.6	5.5	0.36	14.6	3.4	1.11
5 XIIF	10.7	57.9	22.8	0.0	8.67	17.9	3.0	1.29
6 XISI	47.5	19.6	15.9	16.4	0.57	13.1	3.9	1.04
7 XIPI	21.8	62.2	10.5	5.1	0.35	17.1	2.8	1.18
8 XIIC	30.3	40.1	17.0	3.0	9.57	21.1	2.9	1.09
9 XIHD	23.4	56.6	3.1	16.1	0.85	12.8	4.0	1.12
10 XIJI	43.1	0.7	23.6	32.1	0.51	12.3	3.5	1.10
11 XIIML	18.9	77.8	2.9	0.0	0.37	15.7	3.4	1.11
12 XIID	22.2	51.2	5.1	11.2	10.40	13.8	3.5	1.07
13 XIFE	29.9	56.3	5.5	7.9	0.35	13.3	3.6	1.14
<b>Index</b>								
IDX80	37.1	37.6	11.9	13.4		15.5	3.0	
JCI	33.4	38.4	14.2	14.0		16.0	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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