

Roller-coaster week as strong US jobs report renewed Fed rate hike fears

Global markets for stocks and bonds rebounded strongly early in the week but gave back most of their gains after a solid monthly US jobs report released on Friday fueled expectations that the Fed will raise interest rate by another 0.75% next month for the fourth consecutive times. The strong market rebound on Monday and Tuesday was driven by a weaker than expected US manufacturing activity, according to ISM PMI survey, and a decline in jobs openings, which led to expectations that the Fed may moderate rate increases. However, the bullish market sentiment was short-lived as an OPEC agreement to cut oil output by 2 million barrels per day led to a rebound in oil prices, in turn deepening inflation fears, while labor data revealed US economy added 263,000 jobs in September, slightly above expectations of 250,000, and the unemployment rate eased to 3.5% (from 3.7%). Similarly in the bond market, 10-yr US Treasury yield initially eased to 3.62% but ended the week higher at 3.88% after the OPEC agreement and strong jobs report. Meanwhile, the 2-yr yield returned to its high of 4.31%, reflecting market expectations of the Fed's near term interest rate hike path. In the week ahead, market's attention will focus on US inflation data (CPI and PPI) and minutes from the Fed's September meeting.

In Indonesia, JCI was flattish (-0.2%) amid moderate fund outflows (Rp1.43Tn) and currency weakness. However, the energy sector reported large gains as oil prices soared 15% and despite correction in the coal benchmark price, while healthcare sector declined the most this week as the government is expected to announce the end of the Covid-19 pandemic in Indonesia.

The Week Ahead – US Inflation Rates (PPI & CPI), FOMC Minutes

The key economic data to focus next week are Indonesia Consumer Confidence (Mon 10:00), US Producer Price Index (Wed 19:30), FOMC Minutes (Thu 01:00), US Inflation Rate & Initial Jobless Claims (Thu 19:30), US Retail Sales (Fri 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 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 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	29,296.79	1.99%	-19.38%
S&P 500	3,639.66	1.51%	-23.64%
Nasdaq	10,652.41	0.73%	-31.91%
FTSE 100	6,991.09	1.41%	-5.33%
DAX	12,273.00	1.31%	-22.74%
Nikkei 225	27,116.11	4.55%	-5.82%
Hang Seng	17,740.05	3.00%	-24.18%
Shanghai	3,024.39	0.00%	-16.91%
MSCI World	2,417.72	1.64%	-25.19%
MSCI Emerging Markets	897.74	2.51%	-27.13%

JCI Sector Indices	Last	1W	YTD
Energy	2,036.48	6.05%	78.72%
Transportation	1,838.12	4.46%	14.93%
Consumer Cyclical	865.38	1.84%	-3.89%
Technology	7,077.07	1.68%	-21.32%
Basic Materials	1,254.66	1.35%	1.64%
Industrials	1,283.30	0.99%	23.79%
Consumer Non-Cyclical	698.03	0.22%	5.10%
Property & Real Estate	688.34	0.21%	-10.96%
Financials	1,485.31	-0.06%	-2.72%
JCI	7,026.78	-0.20%	6.77%
Infrastructures	969.31	-1.18%	1.05%
Healthcare	1,456.48	-2.76%	2.56%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.31	4 bps	354 bps
UST 10Y Yield	3.89	6 bps	232 bps
Ind_GB 10Y Yield	7.24	-14 bps	100 bps
USDIDR	15,290.70	(13.00)	1061.7
CDS Indo 5Y	157.99	-1.54	83.44

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.43Tn	+63.69Tn
Government Bond Market (Rp)	-	-150.66Tn*

*data is only available until 26th September 2022

Commodities	Last	1W	YTD
WTI	92.64	16.54%	20.33%
Brent	98.25	15.11%	23.87%
CPO (Malaysia)	3,837.00	12.32%	-18.07%
Coal (New Castle)	385.00	-11.65%	126.34%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,089.83	-1.17%	9.63%
XIIT	IDX30	575.89	-1.14%	9.14%
XIJI	JII	678.12	0.60%	13.04%
XISI	SMInfra18	371.05	-0.88%	12.59%
XISR	SriKehati	443.63	-1.60%	16.75%
XIHD	IDXHDIV20	611.15	-0.89%	23.96%
XIPI	Pefindo I-Grade	204.83	-1.52%	14.92%
XIML	MSCI Indo Large Cap	276.57	-2.29%	8.49%
XIID	IDX30	557.55	-1.19%	8.31%
XIFE	FTSE ESG Indonesia	115.31	-0.98%	12.96%
XIIC	Consumer Related	999.49	-0.77%	3.05%
XIIF	Rate Sensitive	534.35	-0.83%	1.44%
XISC	BUMN Stocks	735.70	-0.10%	8.89%
XISB	Sovereign Bonds	441.95	0.51%	-1.95%

Conventional				
RDMP	Equity	922.46	0.02%	-4.50%
RPCF	Balanced	2,633.49	-0.09%	-7.62%
RDPO 2	Fixed Income	1,039.07	0.10%	
RDPU 2	Money Market	1,373.30	0.07%	2.70%

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					
					Rate-Sensitive	Dom. Cyclicals	Commodities	Cash	2022F
1 RLQ45	1 RLQ45	21.0	50.6	9.5	10.6	8.29	13.0	3.4	1.14
2 XIIT	2 XIIT	21.8	52.5	5.1	11.3	9.24	13.2	3.5	1.07
3 XISC	3 XISC	19.1	40.6	11.6	15.1	13.55	12.7	4.1	1.33
4 XISR	4 XISR	23.9	61.7	8.7	5.4	0.25	14.7	3.4	1.11
5 XIIF	5 XIIF	10.5	58.8	22.1	0.0	8.63	17.7	3.1	1.29
6 XISI	6 XISI	45.0	20.7	17.4	16.5	0.41	12.9	4.0	1.04
7 XIPI	7 XIPI	20.8	63.4	10.6	5.0	0.23	17.0	2.8	1.18
8 XIIC	8 XIIC	29.9	41.1	17.1	3.0	8.92	21.2	2.9	1.09
9 XIHD	9 XIHD	22.8	57.6	2.9	16.0	0.72	12.7	4.0	1.12
10 XIJI	10 XIJI	42.5	0.6	23.8	32.7	0.40	12.1	3.5	1.10
11 XIIML	11 XIIML	18.4	78.6	2.8	0.0	0.20	15.8	3.4	1.11
12 XIID	12 XIID	21.9	52.6	5.1	11.4	9.01	13.6	3.5	1.07
13 XIFE	13 XIFE	28.6	57.5	5.7	8.0	0.22	13.2	3.6	1.14
Index	Index								
IDX80	IDX80	36.0	38.2	11.9	13.9		14.7	3.1	
JCI	JCI	33.5	37.8	14.4	14.3		15.5	2.5	

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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