

UK markets turmoil, persistently high inflation, still resilient US economy

Global stock markets continued their relentless declines as DM and EM equities on average fell by 26.4% and 28.9%, respectively, so far in 2022. In the bond market, 10-yr US Treasury yields briefly touched 4%, a level which was last seen in 2007, as turmoil in UK financial markets forced Bank of England to intervene, in turn contributing to extreme volatility in global markets. Markets seem to be pricing-in recession as Fed Chair Powell noted in his speech that the chances of a soft landing in US economy are likely to diminish if monetary policy needs to be more restrictive or restrictive for longer. This week's economic data revealed a still resilient US economy despite monetary tightening as jobless claims were better than expected at 193K (cons.: 215K), as also personal spending growth at 0.4% MoM in August (cons.: 0.2%). Meanwhile, US inflation still runs hot as the core personal consumption expenditure (PCE) price index - the Fed's preferred gauge of inflation - rose more than expected at 0.6% MoM/4.9% YoY in August (cons.: 0.5%/4.7%, respectively). In Europe, EU headline and core CPI inflation of 10% and 4.8% YoY, respectively, are also slightly ahead of market expectations. The challenging economic backdrop has also led to analysts revising down their consensus earnings forecasts for the S&P500 by 6.6% lower than prior forecasts three months earlier, according to FactSet.

In Indonesia, JCI corrected 1.92% amid falling global markets, foreign outflows and a weakening of the currency against US dollars. Among the worst impacted sectors were industrials, technology, basic materials and property sectors, while healthcare, financials and consumer sectors were more resilient this week.

The Week Ahead – Indonesia Inflation Rate, US Jobs Reports

The key economic data to focus next week includes Indonesia Inflation Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 21:00), US ADP Employment Change (Wed 19:15), US ISM Non-Manufacturing PMI (Wed 21:00), US Initial Jobless Claims (Thu 19:30), Indonesia Consumer Confidence (Fri 10:00), US Non Farm Payrolls and Unemployment Rate (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 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	28,725.51	-2.92%	-20.95%
S&P 500	3,585.62	-2.91%	-24.77%
Nasdaq	10,575.62	-2.69%	-32.40%
FTSE 100	6,893.81	-1.78%	-6.65%
DAX	12,114.36	-1.38%	-23.74%
Nikkei 225	25,937.21	-4.48%	-9.91%
Hang Seng	17,222.83	-3.96%	-26.39%
Shanghai	3,024.39	-2.07%	-16.91%
MSCI World	2,378.65	-2.45%	-26.40%
MSCI Emerging Markets	875.79	-3.32%	-28.91%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,497.87	2.23%	5.48%
Financials	1,486.15	-1.26%	-2.67%
Consumer Non-Cyclicals	696.46	-1.71%	4.87%
JCI	7,040.80	-1.92%	6.98%
Consumer Cyclicals	849.77	-2.92%	-5.63%
Property & Real Estate	686.89	-3.56%	-11.15%
Energy	1,920.30	-3.58%	68.52%
Infrastructures	980.91	-3.62%	2.26%
Basic Materials	1,237.97	-4.89%	0.29%
Transportation	1,759.62	-5.49%	10.02%
Technology	6,959.84	-5.77%	-22.62%
Industrials	1,270.72	-6.23%	22.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.27	7 bps	347 bps
UST 10Y Yield	3.83	14 bps	218 bps
Ind_GB 10Y Yield	7.38	11 bps	89 bps
USDIDR	15,303.70	191.60	870.1
CDS Indo 5Y	159.53	47.69	84.98

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.85Tn	+65.1Tn
Government Bond Market (Rp)	-0.98Tn	-150.66Tn

Commodities	Last	1W	YTD
WTI	79.49	0.95%	3.25%
Brent	85.35	-3.68%	7.60%
CPO (Malaysia)	3,416.00	-8.57%	-27.06%
Coal (New Castle)	435.75	0.02%	156.17%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,102.69	-1.28%	10.93%
XIIT IDX30	582.53	-1.25%	10.40%
XIJI JII	674.07	-2.59%	12.36%
XISI SMlnfra18	374.36	-1.03%	13.60%
XISR SriKehati	450.83	-0.48%	18.64%
XIHD IDXHIDIV20	616.63	-0.24%	25.07%
XIPI Pefindo i-Grade	207.99	0.19%	16.70%
XIML MSCI Indo Large Cap	283.04	0.24%	11.03%
XIID IDX30	564.27	-1.34%	9.62%
XIFE FTSE ESG Indonesia	116.46	-0.60%	14.08%
XIIC Consumer Related	1,007.25	-1.60%	3.85%
XIIF Rate Sensitive	538.82	-2.40%	2.28%
XISC BUMN Stocks	736.43	-2.03%	8.99%
XISB Sovereign Bonds	439.72	-0.06%	-2.45%

Conventional	Last	1W	YTD
RDMP Equity	922.26	-2.76%	-4.52%
RPCF Balanced	2,635.99	-2.22%	-7.54%
RDPO 2 Fixed Income	1,038.08	0.09%	
RDPU 2 Money Market	1,372.39	0.06%	2.63%

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	50.6	9.5	10.6	8.29	13.2	3.4	1.14
2 XIIT	21.8	52.5	5.1	11.3	9.24	13.4	3.4	1.07
3 XISC	19.1	40.6	11.6	15.1	13.55	12.8	4.1	1.33
4 XISR	23.9	61.7	8.7	5.4	0.25	14.9	3.4	1.11
5 XIIF	10.5	58.8	22.1	0.0	8.63	18.1	3.0	1.29
6 XISI	45.0	20.7	17.4	16.5	0.41	13.1	3.9	1.04
7 XIPI	20.8	63.4	10.6	5.0	0.23	17.3	2.8	1.18
8 XIIC	29.9	41.1	17.1	3.0	8.92	21.6	2.8	1.09
9 XIHD	22.8	57.6	2.9	16.0	0.72	13.0	3.9	1.12
10 XIJI	42.5	0.6	23.8	32.7	0.40	12.1	3.5	1.10
11 XIIML	18.4	78.6	2.8	0.0	0.20	16.1	3.3	1.11
12 XIID	21.9	52.6	5.1	11.4	9.01	13.9	3.4	1.07
13 XIFE	28.6	57.5	5.7	8.0	0.22	13.4	3.6	1.14
Index								
IDX80	36.0	38.6	11.9	13.5		15.0	3.0	
JCI	32.6	39.5	14.2	13.8		15.4	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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