

US GDP & personal spending growth beat estimates, wage growth slowed

US markets continued to lead the recovery in global stocks amid hopes that the Fed might slow its pace of rate increases as the end of the tightening cycle is now likely in sight. This is also reflected in the easing of 10-yr US Treasury yield to 4.01% (-21bps), after climbing to as high as 4.33% during the previous week. Although investors still widely expect another supersized rate hike of 0.75% in upcoming meeting next week, Fed could begin to shift to smaller rate increases from December. This week's economic data showed US GDP growth returned to positive territory with an annualized rate of 2.6% in Q3, beating expectations (cons.: 2.4%), while personal spending growth of 0.6% MoM in September was also ahead of consensus estimate (0.4%). However, the strong GDP growth was driven by sharp narrowing of US trade deficit while consumer spending growth slowed to 1.4%, from 2.0% in the prior quarter. There is also encouraging news in the fight against persistently high inflation from labor data showing private-sector wage growth slowed considerably to 1.2% in Q3, after surging 1.6% in Q2. In the week ahead, investors focus will be on Fed's meeting for any signal that policymakers will deliver smaller rate hikes in the next few months, and on the US jobs report.

In Indonesia, JCI gained modestly by 0.55% amidst the return of foreign inflows (Rp1.64Tn) and positive Q3 earnings results. Healthcare sector was this week's biggest gainer on the back of resumption of an uptrend in Covid cases, while the infrastructures corrected the most this week.

The Week Ahead – Indonesia GDP Growth, Fed Meeting, US Jobs Report

The key economic data to focus next week are EU GDP Growth Rate & Inflation (Mon 17:00), Indonesia Inflation Rate (Tue 11:00), US ISM Manufacturing PMI (Tue 21:00), US ADP Employment Change (Wed 19:15), Fed Rate Decision (Thu 01:00), US Initial Jobless Claims (Thu 19:30), Indonesia GDP Growth (Fri 09:00), 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 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 XIIML (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	32,861.80	5.72%	-9.57%
S&P 500	3,901.06	3.95%	-18.15%
Nasdaq	11,102.45	2.24%	-29.04%
FTSE 100	7,047.67	1.12%	-4.56%
DAX	13,243.33	4.03%	-16.63%
Nikkei 225	27,105.20	0.80%	-5.86%
Hang Seng	14,863.06	-8.32%	-36.48%
Shanghai	2,915.93	-4.05%	-19.89%
MSCI World	2,561.04	4.01%	-20.75%
MSCI Emerging Markets	845.58	-2.25%	-31.37%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,513.43	2.46%	6.57%
Transportation	1,810.64	1.83%	13.21%
Industrials	1,285.56	1.77%	24.01%
Property & Real Estate	691.03	1.40%	-10.61%
Consumer Cyclical	864.38	1.26%	-4.00%
Consumer Non-Cyclicals	736.96	0.60%	10.97%
JCI	7,056.04	0.55%	7.21%
Energy	2,025.59	0.42%	77.76%
Technology	6,495.62	0.33%	-27.78%
Basic Materials	1,247.53	0.01%	1.07%
Financials	1,488.65	-0.13%	-2.50%
Infrastructures	933.40	-1.14%	-2.70%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.41	-7 bps	375 bps
UST 10Y Yield	4.01	-21 bps	271 bps
Ind GB 10Y Yield	7.58	3 bps	117 bps
USDIDR	15,557.30	20.10	1295.2
CDS Indo 5Y	133.59	-32.25	59.04

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.64Tn	+64.25Tn
Government Bond Market (Rp)	-2.83Tn	-177.13Tn

Commodities	Last	1W	YTD
WTI	88.38	3.81%	14.79%
Brent	95.77	2.67%	20.74%
CPO (Malaysia)	3,989.00	-2.73%	-14.82%
Coal (New Castle)	385.70	-1.10%	126.75%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45	1,105.20	0.94%	11.18%
XIIT	580.94	0.81%	10.10%
XIJI	684.02	0.99%	14.02%
XISI	376.42	1.23%	14.22%
XISR	464.11	1.17%	22.14%
XIHD	631.72	0.99%	28.14%
XIPI	214.14	1.58%	20.15%
XIIML	289.04	1.25%	13.38%
XIID	561.56	0.75%	9.09%
XIFE	119.56	1.32%	17.12%
XIIC	1,030.27	1.20%	6.23%
XIIF	543.11	0.50%	3.10%
XISC	747.31	1.49%	10.60%
XISB	433.15	0.79%	-3.91%

Conventional	Last	1W	YTD
RDMP	913.75	0.08%	-5.40%
RPCF	2,632.49	0.61%	-7.66%
RDPO 2	1,041.06	0.08%	
RDPU 2	1,375.98	0.06%	2.90%

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	21.4	51.9	9.9	10.5	6.35	13.1	3.4	1.14
2 XIIT	22.3	54.2	5.3	11.2	7.11	13.3	3.4	1.07
3 XISC	19.6	40.1	11.4	13.2	15.70	13.0	4.0	1.33
4 XISR	23.8	62.1	8.5	5.2	0.37	15.2	3.3	1.11
5 XIIF	11.2	57.9	21.7	0.0	9.28	18.2	3.0	1.29
6 XISI	43.8	21.7	17.6	16.6	0.31	13.1	3.9	1.04
7 XIPI	20.4	64.1	10.5	4.8	0.20	17.5	2.8	1.18
8 XIIC	30.9	40.4	17.0	2.9	8.85	22.1	2.8	1.09
9 XIHD	22.5	58.4	2.9	15.4	0.79	13.0	3.9	1.12
10 XIJI	43.7	0.6	23.6	31.6	0.55	11.9	3.5	1.10
11 XIML	18.3	78.8	2.7	0.0	0.18	16.5	3.3	1.11
12 XIID	22.3	54.3	5.3	11.2	6.89	13.9	3.4	1.07
13 XIFE	28.7	57.8	5.6	7.6	0.23	13.5	3.5	1.14
Index								
IDX80	34.9	39.7	12.0	13.3		14.6	3.1	
JCI	32.5	39.1	14.5	14.0		15.1	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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