

**Fed minutes reveal slower rate hikes albeit with a higher terminal rate**

Stock markets across the world mostly posted gains this week despite concerns over potential impact on global economies of a new round of Covid lockdowns in China. The upbeat market sentiments stem from the release of minutes from Fed's earlier meeting on 1-2 November, which revealed most participants were inclined to slow the pace of interest-rate increases, after Fed implemented four consecutive rate hikes of 75bps each. However, as previously indicated by Fed Chair Powell, the Fed Fund's rate will likely still peak at higher rate in 2023 than consensus projection of 4.6% by Fed members during the September meeting. Meanwhile, data released on US durables goods orders showed growth picked up to 1.0% MoM in October, from 0.3% in prior month, and it was better than expected (cons.: 0.4%), although jobless claims were also above expectations. With the Fed expected to ease its tightening pace, bond yields edged lower as 10-yr US Treasury yield fell 14bps to 3.69%. Oil prices continued trending down, falling by nearly 5% this week due to lingering worries over China's weakening demand, or over 17% declines from recent highs in early November. In spite of this, coal prices remain well supported, rising by 8.2% this week.

In Indonesia, JCI declined slightly (-0.41%) amid a small foreign investor inflows of Rp0.77Tn this week, while bond prices strengthened with 10-yr yields easing by 10bps to 6.94% despite foreign outflows (-Rp1.31Tn). The technology sector saw the biggest correction while energy sector was best performing this week.

**The Week Ahead – Fed Chair Speech, US Jobs Reports, Indonesia Inflation**

The key economic data to focus next week are China NBS Manufacturing PMI & Non-Manufacturing PMI (Wed 08:30), EU Inflation Rate (Wed 17:00), US ADP (Private-Sector) Employment Change (Wed 20:15), Fed Chair Powell Speech (Thu 01:30), Indonesia Inflation (Thu 11:00), US PCE Price Index, Initial Jobless Claims, and Personal Income & Spending (Thu 20:30), US Non Farm Payrolls & Unemployment Rate (Fri 20:30).

**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	34,347.03	1.78%	-5.48%
S&P 500	4,026.12	1.53%	-15.53%
Nasdaq	11,226.36	0.72%	-28.24%
FTSE 100	7,486.67	1.37%	1.38%
DAX	14,541.38	0.76%	-8.46%
Nikkei 225	28,283.03	1.37%	-1.77%
Hang Seng	17,573.58	-2.33%	-24.89%
Shanghai	3,101.69	0.14%	-14.78%
MSCI World	2,703.67	1.68%	-16.34%
MSCI Emerging Markets	941.01	-0.21%	-23.62%

JCI Sector Indices	Last	1W	YTD
Energy	2,045.31	2.64%	79.49%
Property & Real Estate	709.09	2.41%	-8.28%
Industrials	1,232.96	0.81%	18.93%
Consumer Cyclical	890.50	0.72%	-1.10%
Infrastructures	907.43	0.20%	-5.40%
Consumer Non-Cyclical	733.34	0.17%	10.42%
Healthcare	1,482.32	-0.09%	4.38%
Transportation	1,798.34	-0.16%	12.44%
Basic Materials	1,285.63	-0.38%	4.15%
<b>JCI</b>	<b>7,053.15</b>	<b>-0.41%</b>	<b>7.17%</b>
Financials	1,494.74	-0.66%	-2.10%
Technology	6,424.90	-6.59%	-28.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.47	-6 bps	380 bps
UST 10Y Yield	3.69	-14 bps	232 bps
Ind GB 10Y Yield	6.94	-10 bps	66 bps
USDIDR	15,693.50	52.10	1399.4
CDS Indo 5Y	96.96	0.00	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.77Tn	+62.34Tn
Government Bond Market (Rp)	-1.31Tn	-167.45Tn

Commodities	Last	1W	YTD
WTI	76.28	-4.78%	-0.92%
Brent	83.91	-4.23%	5.79%
CPO (Malaysia)	4,140.00	7.53%	-11.60%
Coal (New Castle)	362.00	8.19%	112.82%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,079.71	-2.00%	8.61%
XIIT	IDX30	567.65	-2.01%	7.58%
XIJI	JII	673.19	0.29%	12.22%
XISI	SMinfra18	363.88	0.99%	10.42%
XISR	SriKehati	457.83	1.00%	20.48%
XIHD	IDXHIDIV20	621.23	1.33%	26.01%
XIPI	Pefindo I-Grade	212.66	0.98%	19.32%
XIIML	MSCI Indo Large Cap	287.08	0.94%	12.61%
XIID	IDX30	556.03	-0.58%	8.02%
XIFE	FTSE ESG Indonesia	118.56	0.80%	16.14%
XIIC	Consumer Related	1,030.97	0.13%	6.30%
XIIF	Rate Sensitive	539.43	0.73%	2.40%
XISC	BUMN Stocks	738.79	0.80%	9.34%
XISB	Sovereign Bonds	455.58	0.75%	1.07%

Conventional	Last	1W	YTD	
RDMF	Equity	902.06	0.87%	-6.61%
RPCF	Balanced	2,591.87	1.00%	-9.08%
RDPO 2	Fixed Income	1,043.89	0.06%	
RDPU 2	Money Market	1,379.77	0.07%	3.19%

## 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. Cyclicals	Commodities	Cash	2022F	2022F	
1 RLQ45	20.6	52.1	10.4	10.9	6.02	15.5	3.2	1.14
2 XIIT	21.8	54.1	5.6	11.7	6.80	14.3	3.4	1.07
3 XISC	17.2	40.6	11.7	13.3	17.29	13.1	3.8	1.33
4 XISR	22.8	63.1	8.7	5.1	0.27	15.2	3.2	1.11
5 XIIF	10.3	56.9	22.8	0.0	9.99	18.2	2.9	1.29
6 XISI	42.2	23.3	18.6	15.7	0.21	12.8	3.9	1.04
7 XIPI	18.7	65.3	10.5	5.3	0.30	17.3	2.7	1.18
8 XIIC	30.0	40.5	17.6	3.2	8.62	24.2	2.5	1.09
9 XIHD	22.9	57.6	3.3	15.4	0.77	12.8	3.9	1.12
10 XIJI	42.4	0.6	24.2	32.1	0.68	11.5	3.7	1.10
11 XIML	16.8	80.0	2.8	0.0	0.33	16.3	3.2	1.11
12 XIID	21.8	54.0	5.6	11.7	6.91	15.1	3.5	1.07
13 XIFE	27.7	59.0	5.8	7.4	0.08	13.6	3.5	1.14
<b>Index</b>								
IDX80	34.1	40.1	12.4	13.5		15.1	3.0	
JCI	32.3	39.2	14.6	14.0		15.1	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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