

Fed raised peak Fed Funds rate while pause in rate hikes is not yet in sight

US stock markets dragged down the recovery momentum of global stocks this week as Wednesday's FOMC meeting outcome and Fed Chair Jerome Powell's post-meeting press conference were the focus of the week. The Fed's decision to raise rates by 75 basis points was widely expected and its initial statement to allow flexibility to either continue with another 75 basis point increase or ease back to 50 basis point rate hike in its December meeting was viewed positively by markets. However, the following press conference's hawkish tone had led to major corrections in US stock indices as Powell stated the FOMC had revised up terminal (peak) Fed Funds rate estimate in 2023 from its September projections of 4.6%. Markets currently expect the Fed Funds rate to rise to 5.25% by March 2023, from the current rate of 4.0%. Powell considered the pace of hikes as not as important as the terminal rate or how long rates stay high, and in his view, a pause in hikes is very premature at this stage. Meanwhile, US jobs report this week painted a solid US labor market as private sector jobs and non farm payrolls both grew stronger than expected in the month of October. Elsewhere in Europe, stock markets closed mostly higher on expectations of slower pace of rate increases. In the bond market, yields of US government bonds rose with 2-year and 10-year US Treasury yields climbing to 4.66% (+24bps) and 4.16% (+15bps), respectively.

In Indonesia, JCI corrected slightly by 0.15% this week amidst marginal inflows from foreign investors (+Rp0.84Tn), due to corrections in industrials, healthcare and infrastructure stocks. Meanwhile, the basic materials sector outperformed partly due to the strong earnings recovery in Q3 for the cement sector.

The Week Ahead – Indonesia GDP Growth, US Inflation Rate

The key economic data to focus next week include Indonesia GDP Growth Rate (Mon 11:00), Indonesia Consumer Confidence (Tue 10:00), EU Retail Sales (Tue 17:00), Indonesia Retail Sales (Wed 10:00), US Inflation Rate and Initial Jobless Claims (Thu 20:30), US Michigan Consumer Sentiment Survey (Fri 22:00).

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 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 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 XIIM (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	32,403.22	-1.40%	-10.83%
S&P 500	3,770.55	-3.35%	-20.89%
Nasdaq	10,475.25	-5.65%	-33.04%
FTSE 100	7,334.84	4.07%	-0.67%
DAX	13,459.85	1.63%	-15.27%
Nikkei 225	27,199.74	0.35%	-5.53%
Hang Seng	16,161.14	8.73%	-30.93%
Shanghai	3,070.80	5.31%	-15.63%
MSCI World	2,507.22	-2.10%	-22.42%
MSCI Emerging Markets	884.98	4.66%	-28.17%

JCI Sector Indices	Last	1W	YTD
Basic Materials	1,301.29	4.31%	5.42%
Transportation	1,853.71	2.38%	15.90%
Technology	6,646.06	2.32%	-26.11%
Consumer Cyclical	881.97	2.04%	-2.05%
Energy	2,028.15	0.13%	77.99%
Property & Real Estate	690.57	-0.07%	-10.67%
JCI	7,045.53	-0.15%	7.05%
Financials	1,474.82	-0.93%	-3.41%
Consumer Non-Cyclical	728.97	-1.08%	9.76%
Infrastructure	921.06	-1.32%	-3.98%
Healthcare	1,487.04	-1.74%	4.72%
Industrials	1,244.36	-3.20%	20.03%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.66	24 bps	368 bps
UST 10Y Yield	4.16	15 bps	250 bps
Ind GB 10Y Yield	7.48	-10 bps	120 bps
USDIDR	15,614.50	57.20	1315.3
CDS Indo 5Y	133.81	0.22	59.26

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.84Tn	+65.09Tn
Government Bond Market (Rp)	-0.558n	-177.62Tn

Commodities	Last	1W	YTD
WTI	92.61	4.79%	20.29%
Brent	98.57	2.92%	24.27%
CPO (Malaysia)	4,367.00	9.48%	-6.75%
Coal (New Castle)	349.50	-9.39%	105.47%

Funds and ETFs	Last	1W	YTD
<i>ETF Theme</i>			
RLQ45 LQ45	1,099.93	-0.48%	10.65%
XIIT IDX30	578.69	-0.39%	9.67%
XIJI JII	679.14	-0.71%	13.21%
XISI SMlnfra18	376.11	-0.08%	14.13%
XISR SriKehati	460.06	-0.87%	21.07%
XIHD IDXHIDIV20	622.95	-1.39%	26.36%
XIPI Pefindo I-Grade	212.82	-0.61%	19.41%
XIIM MSCI Indo Large Cap	285.95	-1.07%	12.17%
XIID IDX30	559.18	-0.42%	8.63%
XIFE FTSE ESG Indonesia	118.87	-0.58%	16.44%
XIIC Consumer Related	1,025.00	-0.51%	5.69%
XIIF Rate Sensitive	539.17	-0.73%	2.35%
XISC BUMN Stocks	746.50	-0.11%	10.49%
XISB Sovereign Bonds	440.33	1.66%	-2.31%

Conventional	Last	1W	YTD
RDMP Equity	902.18	-1.27%	-6.60%
RPCF Balanced	2,597.79	-1.32%	-8.88%
RDPO 2 Fixed Income	1,041.43	0.03%	
RDPU 2 Money Market	1,376.80	0.06%	2.96%

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	20.9	51.2	10.4	10.8	6.70	12.9	3.4	1.14
2 XIIT	22.1	53.2	5.7	11.6	7.45	13.2	3.5	1.07
3 XISC	19.2	40.0	11.7	13.4	15.67	12.8	4.1	1.33
4 XISR	23.1	62.4	8.9	5.2	0.35	15.1	3.3	1.11
5 XIIF	10.8	56.9	21.9	0.0	10.35	18.2	3.0	1.29
6 XISI	42.4	22.2	19.0	16.1	0.28	13.0	3.9	1.04
7 XIPI	19.5	64.5	10.8	5.0	0.17	17.4	2.7	1.18
8 XIIC	30.1	40.4	17.3	3.0	9.12	22.1	2.8	1.09
9 XIHD	21.9	59.1	3.0	15.2	0.77	12.8	4.0	1.12
10 XIJI	42.7	0.6	24.5	31.6	0.52	11.7	3.6	1.10
11 XI ML	17.4	79.6	2.8	0.0	0.15	16.3	3.3	1.11
12 XIID	22.1	53.1	5.7	11.5	7.52	13.8	3.5	1.07
13 XIFE	28.2	58.1	6.0	7.5	0.19	13.4	3.6	1.14
Index								
IDX80	34.5	39.7	12.4	13.4		15.3	3.1	
JCI	32.2	38.9	14.8	14.0		14.9	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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