

Lingering uncertainty on Fed rate hike despite moderating inflation data

Major global stock markets were mostly moving sideways this week, a respite after their strong performances in the prior week, albeit with diverging returns in emerging markets. Comments from Fed officials are still creating uncertainty in markets despite Tuesday's release of more encouraging inflation data, which supported the previous week's data showing a moderating US CPI inflation. US Producer Price Index inflation for October of 0.2% MoM (core PPI: 0% MoM) were lower than market expectations (consensus: 0.4% and 0.3%, respectively), which was similarly positive news to the previous week's CPI data. However, this encouraging PPI inflation data failed to lift up markets as uncertainty remains on the extent of Fed's rate hikes after Fed President James Bullard stated the Fed's terminal policy rate should reach a minimum level of 5% but may need to go as high as 7% to achieve its inflation objectives. Correspondingly, 2-yr UST yields climbed by 20bps to 4.53%, steepening the yield curve inversion as 10-yr yields are nearly unchanged at 3.83%, thus worsening this widely used indicator of a coming recession in the US. Concerns over global economic slowdown and China's weakened oil demand due to a recent rise in Covid infections have led to 9-10% corrections in oil prices. In the holiday-shortened week next week due to Thanksgiving holiday in US, investors will likely focus on the release of Fed's meeting minutes for any guidance on Fed's rate hike policy ahead.

In Indonesia, JCI was flattish (-0.1%) this week amid foreign investor outflows of Rp2.62Tn, with basic materials, infrastructure, property, and technology sectors underperforming the most, while the consumer staples sector outperformed. In contrast, the local bond market was boosted by returning inflows from foreign investors (+Rp6.12Tn), which lowered 10-yr yields by 12bps to 7.05%.

The Week Ahead – Fed Speeches, FOMC Minutes, US Durable Goods Order

The key economic data to focus next week are ECB President Lagarde Speech (Mon 02:30), US Durable Goods Orders and Initial Jobless Claims (Wed 20:30), US New Home Sales (Wed 22:00), US FOMC Minutes (Thu 02:00).

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 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 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	33,745.69	-0.01%	-7.13%
S&P 500	3,965.34	-0.69%	-16.80%
Nasdaq	11,146.06	-1.57%	-28.76%
FTSE 100	7,385.52	0.92%	0.01%
DAX	14,431.86	1.46%	-9.15%
Nikkei 225	27,899.77	-1.29%	-3.10%
Hang Seng	17,992.54	3.85%	-23.10%
Shanghai	3,097.24	0.32%	-14.91%
MSCI World	2,658.90	-0.57%	-17.73%
MSCI Emerging Markets	943.01	0.78%	-23.46%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	732.11	1.01%	10.24%
Energy	1,992.79	0.62%	74.88%
Financials	1,504.72	0.23%	-1.45%
Healthcare	1,483.67	0.18%	4.48%
JCI	7,082.18	-0.10%	7.61%
Consumer Cyclical	884.09	-0.24%	-1.81%
Industrials	1,223.07	-0.36%	17.98%
Transportation	1,801.24	-0.40%	12.62%
Technology	6,878.07	-0.90%	-23.53%
Property & Real Estate	692.37	-0.94%	-10.44%
Infrastructures	905.64	-2.10%	-5.59%
Basic Materials	1,290.53	-2.10%	4.55%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.53	20 bps	360 bps
UST 10Y Yield	3.83	2 bps	230 bps
Ind GB 10Y Yield	7.05	-12 bps	78 bps
USDIDR	15,641.40	167.55	1231.85
CDS Indo 5Y	96.96	0.00	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.62Tn	+61.58Tn
Government Bond Market (Rp)	+6.12Tn	-169.28Tn

Commodities	Last	1W	YTD
WTI	80.11	-9.85%	4.05%
Brent	87.62	-8.72%	10.46%
CPO (Malaysia)	3,850.00	-10.19%	-17.79%
Coal (New Castle)	334.60	2.95%	96.71%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,101.73	-0.44%	10.83%
XIIT	IDX30	579.30	-0.66%	9.79%
XIJI	JII	671.22	-0.89%	11.89%
XISI	SMInfra18	360.32	-2.48%	9.34%
XISR	SriKehati	453.28	-1.52%	19.29%
XIHD	IDXHIDIV20	613.06	-0.91%	24.35%
XIPI	Pefindo I-Grade	210.59	-1.68%	18.16%
XIIM	MSCI Indo Large Cap	284.41	-1.21%	11.57%
XIID	IDX30	559.25	-0.71%	8.64%
XIFE	FTSE ESG Indonesia	117.62	-1.30%	15.22%
XIIC	Consumer Related	1,029.64	-0.72%	6.16%
XIIF	Rate Sensitive	535.50	-1.41%	1.65%
XISC	BUMN Stocks	732.93	-1.89%	8.48%
XISB	Sovereign Bonds	452.17	1.06%	0.31%

Conventional				
RDMP	Equity	894.32	-0.88%	-7.41%
RPCF	Balanced	2,566.33	-0.34%	-9.98%
RDPO 2	Fixed Income	1,043.24	0.09%	
RDPU 2	Money Market	1,378.79	0.07%	3.11%

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	20.4	51.2	10.4	10.6	7.45	15.6	3.2	1.14
2 XIIT	21.6	53.1	5.6	11.4	8.30	14.3	3.5	1.07
3 XISC	17.1	40.4	11.8	13.4	17.30	13.0	3.9	1.33
4 XISR	22.9	63.0	8.8	5.0	0.30	15.1	3.3	1.11
5 XIIF	10.4	57.0	22.1	0.0	10.51	18.2	2.9	1.29
6 XISI	42.4	23.1	18.8	15.4	0.23	12.7	4.0	1.04
7 XIPI	18.8	64.9	10.6	5.4	0.33	17.2	2.7	1.18
8 XIIC	30.1	40.2	17.2	3.3	9.18	24.9	2.4	1.09
9 XIHD	23.1	57.6	3.4	15.0	0.81	12.7	4.0	1.12
10 XIJI	42.8	0.6	24.4	31.5	0.71	11.5	3.7	1.10
11 XIML	16.9	79.9	2.8	0.0	0.37	16.2	3.3	1.11
12 XIID	21.6	53.1	5.6	11.4	8.27	15.0	3.5	1.07
13 XIFE	28.2	58.6	5.8	7.2	0.12	13.5	3.5	1.14
Index								
IDX80	34.7	39.9	12.3	13.2		15.4	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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