

**Hawkish Fed comments amid US inflation moderation, rising yields**

Global stock markets were mostly trendless this week as Fed comments remain hawkish amid further data point showing moderating US inflation. The year of 2022 proved to be a very challenging one for global stock markets, which on average declined by around 20%, amid a four-decade-high inflation, aggressive Fed tightening, and ongoing war in Ukraine. Looking ahead into 2023, inflation and Fed's policy response will likely remain a key driver for markets but at least, the end of Fed's tightening is now in sight, as reflected in markets' expectations for the Fed funds rate to peak at near 5% in May 2023. Friday's data release on US PCE Price Index, the Fed's preferred inflation gauge, revealed a moderating inflation to 0.1% MoM; 5.5% YoY in November, from 0.4% / 6.1%, respectively, in October, with core PCE (excluding food and energy) eased to a four-month low of 4.7%, from 5.0% in the prior month. US personal spending growth of 0.1% MoM in November was lower than expected (cons.: 0.2%), while durables goods order fell 2.1% MoM, also worse than expected (cons.: -0.6%), albeit due to a decline in auto purchases. Meanwhile, 10-yr US Treasury yields climbed to 3.75% (+26bps), due to BOJ's surprise decision to widen its target range for the yields of Japanese 10-yr bonds, due to rising inflation in the country. US crude oil price also rose 6.5% to nearly \$80 a barrel, partly due to expectations that Russia could cut its oil production.

In Indonesia, JCI was flattish (-0.17%) amid a continuation of foreign outflows of Rp1.8Tn, with the coal mining (energy) sector well outperforming other sectors while the basic materials, financials and technology sectors corrected the most. Meanwhile, foreign investors inflows continued into the local bond market with inflows of Rp2.8tn this week while 10-yr yields were stable at 6.92% (+2bps).

**The Week Ahead – China NBS Manufacturing & Non-Manufacturing PMIs**

The key economic data to focus next week are limited ahead of holiday season: US Weekly Initial Jobless Claims (Thu 20:30), China NBS Manufacturing and Non-Manufacturing PMIs (Sat 08:30).

**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 more aggressive monetary policy tightening in the advanced economies. An unexpected Fed monetary policy could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower in 2022 (than in 2013) as Fed tightening is already well expected while Indonesia's country risk indicators have improved. Our 2022 JCI target of 7,800 is now unlikely to be achievable given the continuing drag from technology sector. Our JCI target is based our forward target P/E of 15x, in line with the 10-yr mean P/E before the pandemic. In addition, we view Indonesian stocks as still attractively valued, due to its underperformance vs. DM equities during 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). However, performances of RLQ45 and XIIT during 2022 have been dragged by their exposures to major technology stocks. Meanwhile, our semi-broad funds such as XIPI and XISR have been our preferred ETF picks in the past few months, due to their overweight of BBKA, widely considered as a defensive stock at times of uncertainty, and more importantly, both of these ETFs have no exposure to the major technology stocks such as GOTO, BUKA, EMTK, and ARTO, which we view as posing considerable downside risk to fund performances at a time of rising interest rates globally. 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 in the past 2 years, despite this ETF's small exposure to the technology sector through ARTO.

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	33,203.93	0.86%	-8.63%
S&P 500	3,844.82	-0.20%	-19.33%
Nasdaq	10,497.86	-1.94%	-32.90%
FTSE 100	7,473.01	1.92%	1.20%
DAX	13,940.93	0.34%	-12.24%
Nikkei 225	26,235.25	-4.69%	-8.88%
Hang Seng	19,593.06	0.73%	-16.26%
Shanghai	3,045.87	-3.85%	-16.32%
MSCI World	2,605.19	-0.03%	-19.39%
MSCI Emerging Markets	954.78	-0.26%	-22.50%

JCI Sector Indices	Last	1W	YTD
Energy	2,256.74	4.50%	98.05%
Infrastructures	854.79	1.11%	-10.89%
Consumer Cyclical	846.73	0.61%	-5.96%
Industrials	1,178.79	0.09%	13.71%
<b>JCI</b>	<b>6,800.67</b>	<b>-0.17%</b>	<b>3.33%</b>
Healthcare	1,552.67	-0.31%	9.34%
Consumer Non-Cyclicals	722.15	-0.76%	8.74%
Property & Real Estate	692.78	-1.20%	-10.38%
Transportation	1,677.17	-1.52%	4.86%
Technology	5,137.38	-1.63%	-42.88%
Financials	1,420.79	-2.11%	-6.95%
Basic Materials	1,231.04	-2.88%	-0.27%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.33	15 bps	345 bps
UST 10Y Yield	3.75	26 bps	198 bps
Ind GB 10Y Yield	6.92	2 bps	52 bps
USDIDR	15,582.50	(33.45)	1373.95
CDS Indo 5Y	96.96	0.00	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.78Tn	+45.94Tn
Government Bond Market (Rp)	+2.81Tn	-128.66Tn

Commodities	Last	1W	YTD
WTI	79.35	6.51%	3.07%
Brent	83.97	6.24%	5.86%
CPO (Malaysia)	3,830.00	-2.25%	-18.21%
Coal (New Castle)	400.65	-1.07%	135.54%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,015.61	-1.73%	2.17%
XIIT	IDX30	529.97	-1.96%	0.44%
XIJI	JII	651.83	-1.09%	8.65%
XISI	SMInfra18	346.41	-0.34%	5.12%
XISR	SriKehati	442.59	-1.28%	16.47%
XIHD	IDXHIDIV20	607.13	-1.04%	23.15%
XIPI	Pefindo I-Grade	206.57	-1.33%	15.90%
XIIML	MSCI Indo Large Cap	278.17	-1.43%	9.12%
XIID	IDX30	517.41	-2.03%	0.52%
XIFE	FTSE ESG Indonesia	113.49	-1.61%	11.18%
XIIC	Consumer Related	994.29	-2.35%	2.52%
XIIF	Rate Sensitive	512.98	-1.92%	-2.62%
XISC	BUMN Stocks	715.12	-1.17%	5.84%
XISB	Sovereign Bonds	461.67	0.28%	2.42%

Conventional				
RDMP	Equity	862.77	-2.16%	-10.68%
RPCF	Balanced	2,546.32	-0.88%	-10.68%
RDPO 2	Fixed Income	1,046.88	0.05%	
RDPU 2	Money Market	1,384.02	0.08%	3.50%

**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	2023F	2023F	
1 RLQ45	20.9	54.0	10.7	11.2	3.22	14.8	4.1	1.14
2 XIIT	22.1	56.4	5.7	12.1	3.61	14.6	4.9	1.07
3 XISC	19.6	37.7	11.1	15.7	15.88	11.6	4.7	1.33
4 XISR	28.1	62.3	4.2	5.3	0.24	13.4	3.9	1.11
5 XIIF	11.8	53.9	22.1	0.0	12.21	15.7	3.6	1.29
6 XISI	41.9	24.6	18.0	15.2	0.28	11.4	4.7	1.04
7 XIPI	18.1	65.9	10.4	5.0	0.51	15.9	4.3	1.18
8 XIIC	34.5	41.7	17.4	3.1	3.42	19.4	4.0	1.09
9 XIHD	22.6	57.6	3.4	15.6	0.77	12.2	4.8	1.12
10 XIJI	42.8	0.6	25.9	28.0	2.72	13.1	4.6	1.10
11 XI ML	19.0	74.6	2.7	3.4	0.36	14.2	3.9	1.11
12 XIID	22.1	56.4	5.7	12.1	3.57	14.6	5.2	1.07
13 XIFE	26.6	59.9	5.7	7.5	0.27	13.1	4.2	1.14
<b>Index</b>								
IDX80	31.8	41.7	12.7	13.8		14.3	4.2	
JCI	30.8	13.4	30.4	25.3		14.2	3.3	

**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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