

Good news on inflation offset by a hawkish Fed and weak US retail sales

US stock indices rebounded earlier this week, following release of a cooler than expected CPI inflation data, only to close the week lower after Wednesday's Fed meeting and release of a retail sales report on Thursday. US headline and core inflation for November eased to 0.1% and 0.2% MoM, respectively, which were below consensus expectations of 0.3%, thus lowering the annual inflation rates to 7.1% and 6.0% YoY, respectively. However, although Fed's decision to raise interest rate by 50bps was widely expected, stocks corrected after Fed Chair Powell stressed the need to keep rate at a higher peak level next year in light of the inflationary dangers of a tight labour market. This view is reflected in the median projection by FOMC members for the fed funds rate to rise to 5.1% in 2023 (vs. 4.6% projected in September FOMC meeting). Furthermore, US retail sales dropped 0.6% MoM in November, from 1.3% growth in the prior month, despite post-Thanksgiving holiday sales. This worse-than-expected retail sales report, which was the biggest decline this year, is adding to fears that further interest-rate increases could tip the US economy into a recession. Elsewhere in Europe, stocks corrected after major central banks also raised rates by 50bps and the ECB also suggested a higher peak interest rate next year. In the week ahead, markets may focus on release of another inflation data, the US PCE Price Index, which is an inflation measure preferred by the Fed for tracking inflation. In October, core PCE inflation eased slightly to 5.0%, from 5.2% in prior month.

In Indonesia, JCI rebounded by 1.45%, despite still substantial foreign outflows of Rp5.1Tn, on the back of easing selling pressures on technology sector and stocks rebound across the board, except consumer cyclicals, infrastructure and property sectors. Meanwhile, continuing foreign inflows into local bond market (Rp2.4Tn) further lowered 10-yr yields to 6.90% (-4bps).

The Week Ahead – BI Meeting, US PCE Price Index and Personal Spending

The key economic data to focus next week includes BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 20:30), US PCE Price Index, Durables Goods Orders and Personal Income and Spending (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 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 XIML (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	32,920.46	-1.66%	-9.41%
S&P 500	3,852.36	-2.08%	-19.17%
Nasdaq	10,705.41	-2.72%	-31.57%
FTSE 100	7,332.12	-1.93%	-0.71%
DAX	13,893.07	-3.32%	-12.54%
Nikkei 225	27,527.12	-1.34%	-4.39%
Hang Seng	19,450.67	-2.26%	-16.87%
Shanghai	3,167.86	-1.22%	-12.97%
MSCI World	2,606.01	-2.13%	-19.36%
MSCI Emerging Markets	957.30	-2.14%	-22.30%

JCI Sector Indices	Last	1W	YTD
Energy	2,159.47	2.14%	89.51%
Healthcare	1,557.43	1.85%	9.67%
Basic Materials	1,267.52	1.50%	2.68%
Financials	1,451.34	1.48%	-4.95%
JCI	6,812.19	1.45%	3.51%
Consumer Non-Cyclicals	727.71	1.17%	9.57%
Industrials	1,177.78	0.88%	13.61%
Technology	5,222.58	0.57%	-41.94%
Transportation	1,703.00	0.53%	6.48%
Property & Real Estate	701.22	-1.02%	-9.29%
Infrastructures	845.42	-1.12%	-11.87%
Consumer Cyclicals	841.61	-1.35%	-6.53%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.18	-16 bps	361 bps
UST 10Y Yield	3.49	-9 bps	207 bps
Ind GB 10Y Yield	6.90	-4 bps	56 bps
USDIDR	15,615.95	32.95	1341
CDS Indo 5Y	96.96	96.96	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-5.09Tn	+47.73Tn
Government Bond Market (Rp)	+2.43Tn	-132.69Tn

Commodities	Last	1W	YTD
WTI	74.50	4.90%	-3.23%
Brent	79.04	3.96%	-0.35%
CPO (Malaysia)	3,918.00	-7.13%	-16.34%
Coal (New Castle)	405.00	0.62%	138.10%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,033.53	1.94%	3.97%
XIIT	IDX30	540.58	1.91%	2.45%
XIJI	JII	658.99	2.33%	9.85%
XISI	SMInfra18	347.60	0.56%	5.48%
XISR	SriKehati	448.32	1.64%	17.98%
XIHD	IDXHDIV20	613.53	1.95%	24.45%
XIPI	Pefindo I-Grade	209.36	1.60%	17.47%
XIML	MSCI Indo Large Cap	282.21	2.07%	10.70%
XIID	IDX30	528.11	1.86%	2.59%
XIFE	FTSE ESG Indonesia	115.35	1.52%	13.00%
XIIC	Consumer Related	1,018.23	1.30%	4.99%
XIIF	Rate Sensitive	523.01	0.68%	-0.72%
XISC	BUMN Stocks	723.59	1.82%	7.09%
XISB	Sovereign Bonds	460.39	0.28%	2.14%

Conventional				
RDMP	Equity	881.85	1.36%	-8.70%
RPCF	Balanced	2,568.91	1.48%	-9.89%
RDPO 2	Fixed Income	1,046.37	0.10%	
RDPU 2	Money Market	1,382.85	0.07%	3.42%

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	20.8	54.0	10.5	11.2	3.44	14.7	4.0	1.14
2 XIIT	22.0	56.3	5.7	12.1	3.87	14.4	5.0	1.07
3 XISC	19.3	38.6	11.6	15.4	15.14	11.8	4.6	1.33
4 XISR	27.8	62.6	4.3	5.1	0.16	13.6	3.8	1.11
5 XIIF	11.3	53.9	22.8	0.0	12.00	15.2	3.6	1.29
6 XISI	42.2	24.5	18.3	14.8	0.16	11.5	4.7	1.04
7 XIPI	17.6	66.3	10.4	5.4	0.33	15.3	4.4	1.18
8 XIIC	31.3	40.3	17.5	3.3	7.66	18.9	4.1	1.09
9 XIHD	22.5	58.1	3.4	15.2	0.83	12.4	4.8	1.12
10 XIJI	43.0	0.6	25.8	27.9	2.74	12.3	4.6	1.10
11 XIIML	18.5	75.1	2.7	3.3	0.43	14.4	3.9	1.11
12 XIID	22.0	56.3	5.7	12.1	3.77	14.3	5.3	1.07
13 XIFE	26.7	59.9	5.8	7.4	0.33	12.8	4.1	1.14
Index								
IDX80	31.6	41.8	12.6	14.0		14.3	3.2	
JCI	31.3	13.6	29.6	25.4		14.1	2.6	

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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