

**Fed signals slower pace of tightening amidst still robust US labor market**

US stock and bond markets continued edging higher amid signs of moderating inflation and Fed Chair Jerome Powell's signal of smaller interest rate hikes in the coming months although he reiterated that peak interest rate in this cycle is likely to be higher for longer than previously expected. Market expectations for peak Fed Fund's rate are stabilising at around 5.0% (vs. current rate of 4.0%). The S&P500 index is up by 14% from its recent lows in October while 10-yr US Treasury yields have eased by around 74bps to 3.49%. The fall in bond yields was despite a still robust US jobs market with the nonfarm payroll data showing a higher than expected job gains of 263,000 in November (cons.: 200,000) and an average hourly wage growth of 5.1% YoY (cons.: 4.6%). The labor market remains a source of strength in the weakened US economy and Mr. Powell has stated that labor demand would likely need to soften in order to bring inflation under control. Elsewhere, emerging stock markets also rebounded strongly on signs that China is easing quarantine measures following unrest. Going forward, we expect market attention will continue to focus on US CPI inflation, which will be released on 13 December, just ahead of the Fed's meeting and its release of FOMC Economic Projections on 14 December 2022.

In Indonesia, JCI declined slightly (-0.48%) amid foreign outflows of Rp0.72Tn this week albeit this was largely due to continuing drag from the technology sector, which corrected by 10.7% this week (YTD 2022: -36.2%). Meanwhile, the bond market saw significant foreign inflows of Rp7.0Tn, which helped lower the 10-yr yields by 10bps to 6.84% and contributed to a slight recovery of the IDR currency against US dollars.

**The Week Ahead – US PPI Inflation, Indonesia Retail Sales**

The key economic data to focus next week are China Caixin Services PMI (Mon 08:45), EU Retail Sales (Mon 17:00), US ISM Non-Manufact. PMI (Mon 22:00), US Initial Jobless Claims (Thu 20:30), Indonesia Retail Sales (Fri 10:00), US Producer Price Index (Fri 20:30), US Michigan Consumer Sentiment (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 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. We maintain our 2022 JCI target of 7,800, although it is getting less likely to be achievable despite robust 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 still attractively valued, due to its past 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). 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	34,429.88	0.24%	-5.25%
S&P 500	4,076.57	1.25%	-14.47%
Nasdaq	11,461.50	2.09%	-26.74%
FTSE 100	7,556.23	0.93%	2.32%
DAX	14,529.39	-0.08%	-8.53%
Nikkei 225	27,777.90	-1.79%	-3.52%
Hang Seng	18,675.35	6.27%	-20.18%
Shanghai	3,156.14	1.76%	-13.29%
MSCI World	2,733.03	1.09%	-15.43%
MSCI Emerging Markets	973.85	3.49%	-20.95%

JCI Sector Indices	Last	1W	YTD
Energy	2,134.91	4.38%	87.35%
Healthcare	1,530.80	3.27%	7.80%
Property & Real Estate	719.89	1.52%	-6.88%
Consumer Non-Cyclicals	741.67	1.14%	11.67%
Industrials	1,238.23	0.43%	19.44%
Consumer Cyclicals	893.48	0.34%	-0.77%
Basic Materials	1,289.58	0.31%	4.47%
Transportation	1,793.62	-0.26%	12.14%
<b>JCI</b>	<b>7,019.64</b>	<b>-0.48%</b>	<b>6.66%</b>
Financials	1,480.37	-0.96%	-3.04%
Infrastructures	894.70	-1.40%	-6.73%
Technology	5,737.08	-10.71%	-36.22%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.28	-18 bps	373 bps
UST 10Y Yield	3.49	-20 bps	218 bps
Ind GB 10Y Yield	6.84	-10 bps	56 bps
USDIDR	15,376.20	(317.30)	1451.5
CDS Indo 5Y	96.96	0.00	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.72Tn	+61.6Tn
Government Bond Market (Rp)	+7.00Tn	-155.1Tn

Commodities	Last	1W	YTD
WTI	79.98	4.85%	3.88%
Brent	85.79	2.24%	8.16%
CPO (Malaysia)	3,952.00	-4.54%	-15.61%
Coal (New Castle)	385.00	6.35%	126.34%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,072.39	-0.68%	7.88%
XIIT	IDX30	561.35	-1.11%	6.39%
XIJI	JII	670.08	-0.46%	11.70%
XISI	SMInfra18	366.54	0.73%	11.22%
XISR	SriKehati	462.35	0.99%	21.67%
XIHD	IDXHIDIV20	630.51	1.49%	27.89%
XIPI	Pefindo I-Grade	215.36	1.27%	20.83%
XIIML	MSCI Indo Large Cap	289.23	0.75%	13.46%
XIID	IDX30	549.23	-1.22%	6.70%
XIFE	FTSE ESG Indonesia	118.94	0.32%	16.51%
XIIC	Consumer Related	1,040.11	0.89%	7.24%
XIIF	Rate Sensitive	541.38	0.36%	2.77%
XISC	BUMN Stocks	744.98	0.84%	10.26%
XISB	Sovereign Bonds	461.45	1.29%	2.37%

Conventional	Last	1W	YTD	
RDMP	Equity	911.46	1.04%	-5.63%
RPCF	Balanced	2,626.66	1.34%	-7.86%
RDPO 2	Fixed Income	1,044.59	0.07%	
RDPU 2	Money Market	1,380.83	0.08%	3.26%

**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	20.7	53.1	10.6	11.1	4.48	15.6	3.2	1.14
2 XIIT	21.9	55.4	5.6	12.0	5.06	14.6	3.4	1.07
3 XISC	16.8	41.2	11.3	13.5	17.23	13.4	3.8	1.33
4 XISR	27.8	62.3	4.3	5.4	0.18	15.3	3.2	1.11
5 XIIF	10.2	57.3	22.7	0.0	9.87	18.3	2.9	1.29
6 XISI	42.1	23.9	18.5	15.4	0.18	12.9	3.9	1.04
7 XIPI	18.3	65.7	10.4	5.3	0.34	17.7	2.6	1.18
8 XIIC	29.6	40.7	17.5	3.2	8.95	24.1	2.5	1.09
9 XIHD	22.7	57.7	3.3	15.4	0.82	12.9	3.9	1.12
10 XIJI	42.6	0.6	25.7	28.4	2.65	11.8	3.6	1.10
11 XIML	16.7	80.1	2.7	0.0	0.46	16.5	3.2	1.11
12 XIID	21.9	55.4	5.6	12.0	5.06	15.4	3.4	1.07
13 XIFE	27.0	59.4	5.8	7.5	0.35	13.8	3.5	1.14
<b>Index</b>								
IDX80	32.8	41.1	12.5	13.7		13.6	3.1	
JCI	32.2	14.5	26.5	26.6		13.6	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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