

US stocks rallied on Friday's jobs report showing slowing wage growth

Global equity markets started 2023 on a positive note with US stocks snapping three-week losing streaks due to a Friday rally driven by an encouraging jobs report. While stronger than expected US jobs growth for December revealed by the ADP private sector employment survey, weekly jobless claims, and nonfarm payrolls is contrary to investors' preference for slowing economy and inflation, markets' sentiment turned positive on hopes for a soft landing of US economy. Friday's nonfarm payrolls rose by 223,000 in December, the smallest growth in two years albeit still above expectations (cons.: 200,000). More importantly, this modest job growth was accompanied by slower growth in hourly wages, which rose by 0.3% MoM and 4.6% YoY, below consensus forecasts of 0.4% and 5.0%, respectively, which was the slowest hourly wage growth since September 2021. In addition, ISM PMI survey data for services activity (also released on Friday), was below expectations and showed contraction, similar to manufacturing PMI data released earlier in the week. In the bond market, the slowdown in US wage growth and services activity eased markets' inflation worries and it contributed to a 32bps decline in 10-yr US Treasury yield to 3.56% this week. Next week, markets' attention will be on US CPI data release on Thursday, with consensus expectations for recent moderation in inflation to continue in December, with headline and core CPI of 6.5% and 5.7% YoY, respectively, lower than 7.1% and 6.0%, respectively, reported in November.

In Indonesia, JCI corrected significantly by 2.42% amid a continuation of recent trend of foreign outflows (-Rp1.81Tn), which was in contrast to inflows into the bond market (+Rp2.55Tn). The energy (coal mining) sector corrected the most this week due to news of China's reopening of its coal imports from Australia, followed by consumer cyclicals, property, industrials and banking sectors, while consumer staples and basic materials sectors were the main gainers this week.

The Week Ahead – Fed Chair Powell Speech, US Inflation Rate

The key economic data release to focus next week are Fed Chair Powell Speech (Tue 21:00), US Inflation Rate & Initial Jobless Claims (Thu 20:30), US Michigan Consumer Sentiment Survey (Fri 22:00)

Investment Conclusion

Fed's aggressive rate hikes has been a key risk for global markets during 2022 but we believe the Fed Fund's rate is close to peaking although it may remain elevated throughout 2023 until there is sign US inflation is firmly under control. Indonesia's equity market has been resilient in comparison to global markets in 2022 although the JCI still fell well short of our target of 7,800, despite steadily upgraded earnings forecasts throughout the year, partly due to the drag from the technology sector in the last two months of 2022. For 2023, we set our new JCI target of 7,600 based on JCI earnings growth forecasts of 1% in 2023; 4% in 2024 and our 12-month forward P/E target of 12.5x, in line with the market's long-term (>20 years) mean forward P/E valuation.

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 XIPI and XISR have been our preferred ETF picks in the past few months, due to their overweight of banking sector, particularly BBKA, and more importantly, these two ETFs have no exposure to major technology stocks (eg. GOTO, BUKA, EMTK, ARTO), which we view as posing considerable downside risk to fund performances at a time of rising interest rates globally. We also like our ETFs XIIM (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, and XIFE (FTSE Indonesia ESG), for its overweight on banking sector, particularly BBKA (no weight capping), while also underweight on resources and technology.

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	33,630.61	1.46%	1.46%
S&P 500	3,895.08	1.45%	1.45%
Nasdaq	10,569.29	0.98%	0.98%
FTSE 100	7,699.49	3.32%	3.32%
DAX	14,610.02	4.93%	4.93%
Nikkei 225	25,973.85	-0.46%	-0.46%
Hang Seng	20,991.64	6.12%	6.12%
Shanghai	3,157.64	2.21%	2.21%
MSCI World	2,649.76	1.81%	1.81%
MSCI Emerging Markets	988.68	3.38%	3.38%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	726.04	1.32%	1.32%
Basic Materials	1,222.35	0.51%	0.51%
Technology	5,100.91	-1.18%	-1.18%
Healthcare	1,541.57	-1.50%	-1.50%
Infrastructures	848.42	-2.33%	-2.33%
JCI	6,684.56	-2.42%	-2.42%
Transportation	1,621.01	-2.46%	-2.46%
Financials	1,373.23	-2.95%	-2.95%
Industrials	1,138.16	-3.08%	-3.08%
Property & Real Estate	688.86	-3.15%	-3.15%
Consumer Cyclicals	822.23	-3.37%	-3.37%
Energy	2,119.86	-7.01%	-7.01%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.26	-17 bps	-17 bps
UST 10Y Yield	3.56	-32 bps	-32 bps
Ind GB 10Y Yield	6.97	4 bps	4 bps
USDIDR	15,633.00	94.50	0
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.81Tn	-1.81Tn
Government Bond Market (Rp)	+2.55Tn	+2.55Tn

Commodities	Last	1W	YTD
WTI	73.73	-8.42%	-8.42%
Brent	78.57	-8.54%	-8.54%
CPO (Malaysia)	4,052.00	-2.92%	-2.92%
Coal (New Castle)	400.00	2.56%	2.56%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	993.32	-2.47%	-2.47%
XIIT	IDX30	517.43	-2.56%	-2.56%
XIJI	JII	633.58	-2.18%	-2.18%
XISI	SMInfra18	338.44	-2.01%	-2.01%
XISR	SriKehati	430.93	-2.58%	-2.58%
XIHD	IDXHIDIV20	585.20	-3.26%	-3.26%
XIPI	Pefindo I-Grade	201.51	-2.61%	-2.61%
XIIM	MSCI Indo Large Cap	269.08	-3.36%	-3.36%
XIID	IDX30	504.49	-2.61%	-2.61%
XIFE	FTSE ESG Indonesia	110.45	-2.69%	-2.69%
XIIC	Consumer Related	980.73	-1.41%	-1.41%
XIIF	Rate Sensitive	499.90	-2.75%	-2.75%
XISC	BUMN Stocks	696.28	-2.47%	-2.47%
XISB	Sovereign Bonds	461.20	-0.06%	-0.06%

Conventional				
RDMP	Equity	841.44	-2.09%	-2.09%
RPCF	Balanced	2,475.70	-2.34%	-2.34%
RDPO 2	Fixed Income	1,049.02	0.08%	
RDPU 2	Money Market	1,385.95	0.07%	0.07%

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	54.1	10.6	11.1	3.36	13.9	4.1	1.14
2 XIIT	22.0	56.6	5.5	12.1	3.78	13.7	4.8	1.07
3 XISC	19.4	38.0	10.9	15.6	16.19	11.2	4.9	1.33
4 XISR	27.9	62.6	4.1	5.2	0.21	13.0	4.1	1.11
5 XIIF	11.7	54.0	22.0	0.0	12.21	14.5	3.7	1.29
6 XISI	42.4	24.8	17.9	14.7	0.25	11.0	4.9	1.04
7 XIPI	18.5	65.0	10.8	5.3	0.48	14.8	4.2	1.18
8 XIIC	34.3	41.5	17.2	3.1	3.86	14.7	4.0	1.09
9 XIHD	22.4	58.1	3.4	15.4	0.75	11.7	4.9	1.12
10 XIJI	43.0	0.6	25.8	27.8	2.79	12.4	4.7	1.10
11 XIML	16.1	77.4	2.7	3.6	0.21	12.9	4.4	1.11
12 XIID	22.0	56.6	5.5	12.1	3.67	13.7	5.1	1.07
13 XIFE	26.5	60.3	5.6	7.5	0.18	12.3	4.2	1.14
Index								
IDX80	32.7	41.2	12.8	13.3		12.9	4.8	
JCI	0.0	0.0	0.0	0.0		12.8	3.9	

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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