

Stock markets ended a tough 2022 without their usual December rallies

Global markets ended 2022 with one of their worst annual results as developed and emerging stock markets, on average, fell by 19.5% and 22.4%, respectively. It was also a difficult year for bond markets as 10-yr US Treasury yields climbed up 224bps to 3.88% on the back of persistently high inflation. However, with US inflation showing signs of moderation and the Fed widely expected to pause its aggressive rate hike campaign in the near term, markets are looking forward to a brighter 2023 outlook and may start discounting prospect of monetary policy easing in the second half of the year. Next week, the most important events to watch out for are the releases of minutes from December 13-14 FOMC meeting and labor reports on US job growth, both for private sector (ADP Employment Survey) and overall (Non Farm Payrolls) and unemployment rate for December.

In Indonesia, JCI gained (+0.73%) amid continuing foreign outflows (Rp1.95Tn). The property and infrastructure sectors gained the most this week, although it should be noted that these two sectors, together with technology, have been among worst performing stocks in 2022. The energy sector, which comprises of coal mining stocks, also performed well this week despite a slight correction in the coal benchmark price (-2.66%), which have risen by 129% in 2022.

The Week Ahead – Indonesia Inflation, FOMC Minutes, US Jobs Reports

The key economic data release to focus next week includes Indonesia Inflation (Mon 11:00), China Caixin Manufact. PMI (Tue 08:45), US ISM Manufacturing PMI (Wed 22:00), FOMC Minutes (Thu 02:00), China Caixin Services PMI (Thu 08:45), US ADP Employment Change & Initial Jobless Claims (Thu 20:15/20:30), EU Inflation Rate (Fri 17:00), US Non-Farm Payrolls & Unemployment Rate (Fri 20:30), US ISM Non-Manufacturing PMI & Factory Orders (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. During 2022, the JCI underperformed our target of 7,800 (which is based on our forward P/E target of 15x), in part due to continuing weakness of the global stock markets and drag from technology sector. We view Indonesian stocks as still attractively valued and expect a stronger outlook in 2023.

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	33,147.25	-0.17%	-8.78%
S&P 500	3,839.50	-0.14%	-19.44%
Nasdaq	10,466.48	-0.30%	-33.10%
FTSE 100	7,451.74	-0.28%	0.91%
DAX	13,923.59	-0.12%	-12.35%
Nikkei 225	26,094.50	-0.54%	-9.37%
Hang Seng	19,781.41	0.96%	-15.46%
Shanghai	3,089.26	1.42%	-15.13%
MSCI World	2,602.69	-0.10%	-19.46%
MSCI Emerging Markets	956.38	0.17%	-22.37%

JCI Sector Indices	Last	1W	YTD
Energy	2,279.55	1.01%	100.05%
Infrastructures	868.64	1.62%	-9.45%
Consumer Cyclical	850.90	0.49%	-5.50%
Industrials	1,174.34	-0.38%	13.28%
JCI	6,850.62	0.73%	4.09%
Healthcare	1,564.98	0.79%	10.20%
Consumer Non-Cyclical	716.56	-0.77%	7.89%
Property & Real Estate	711.25	2.67%	-8.00%
Transportation	1,661.94	-0.91%	3.91%
Technology	5,162.04	0.48%	-42.61%
Financials	1,414.93	-0.41%	-7.33%
Basic Materials	1,216.13	-1.21%	-1.48%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.43	10 bps	359 bps
UST 10Y Yield	3.88	13 bps	224 bps
Ind GB 10Y Yield	6.93	0 bps	54 bps
USDIDR	15,538.50	(44.00)	1340.5
CDS Indo 5Y	96.96	0.00	22.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.95Tn	+43.99Tn
Government Bond Market (Rp)	-0.32Tn	-128.98Tn

Commodities	Last	1W	YTD
WTI	80.51	1.46%	4.57%
Brent	85.91	2.31%	8.31%
CPO (Malaysia)	4,174.00	8.98%	-10.87%
Coal (New Castle)	390.00	-2.66%	129.28%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,018.49	0.28%	2.46%
XIIT	IDX30	531.02	0.20%	0.64%
XIJI	JII	647.71	-0.63%	7.97%
XISI	SMinfra18	345.37	-0.30%	4.80%
XISR	SriKehati	442.33	-0.06%	16.41%
XIHD	IDXHIDIV20	604.94	-0.36%	22.70%
XIPI	Pefindo I-Grade	206.92	0.17%	16.10%
XIML	MSCI Indo Large Cap	278.43	0.10%	9.22%
XIID	IDX30	518.03	0.12%	0.64%
XIFE	FTSE ESG Indonesia	113.50	0.01%	11.18%
XIIC	Consumer Related	994.74	0.05%	2.56%
XIIF	Rate Sensitive	514.01	0.20%	-2.43%
XISC	BUMN Stocks	713.94	-0.16%	5.67%
XISB	Sovereign Bonds	461.45	-0.05%	2.37%

Conventional	Last	1W	YTD
RDMP Equity	859.42	-0.39%	-11.02%
RPCF Balanced	2,535.11	-0.44%	-11.07%
RDPO 2 Fixed Income	1,048.13	0.12%	
RDPU 2 Money Market	1,385.03	0.07%	3.58%

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	10.5	11.2	3.44	14.4	4.0	1.14
2 XIIT	22.0	56.3	5.7	12.1	3.87	14.1	4.9	1.07
3 XISC	19.4	38.4	11.6	15.4	15.18	11.8	4.6	1.33
4 XISR	27.8	62.6	4.3	5.1	0.16	13.4	3.8	1.11
5 XIIF	11.3	53.8	22.8	0.0	12.01	15.1	3.6	1.29
6 XISI	42.2	24.5	18.3	14.8	0.16	11.4	4.7	1.04
7 XIPI	17.6	66.3	10.4	5.4	0.33	15.2	4.3	1.18
8 XIIC	31.3	40.3	17.5	3.3	7.66	18.6	4.0	1.09
9 XIHD	22.5	58.1	3.4	15.2	0.83	12.2	4.8	1.12
10 XIJI	43.0	0.6	25.8	27.9	2.74	12.2	4.6	1.10
11 XIIML	18.5	75.1	2.7	3.3	0.43	14.2	3.9	1.11
12 XIID	22.0	56.3	5.7	12.1	3.77	14.1	5.2	1.07
13 XIFE	26.7	59.9	5.8	7.4	0.33	12.6	4.2	1.14
Index								
IDX80	32.0	41.8	12.5	13.8		14.3	4.2	
JCI	30.8	13.2	30.8	25.1		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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