

Robust US economy and cooling inflation are easing recession concerns

Global stock markets rebounded to end the month of January with fairly robust returns. In US markets, the large-cap growth stock benchmark outperformed its value counterpart, reversing the trend from 2022, as inflation is cooling and Fed Fund's rate is close to its forecast terminal rate. US core personal consumption expenditure (PCE) price index, the Fed's preferred inflation gauge, rose 4.4% YoY in December, its slowest pace in 14 months, albeit still above the Fed's 2% long-term target. Fed members forecast the core PCE inflation to slow further to 3.5% in the fourth quarter of 2023. Cooling inflation should pave way for the Fed to slow the pace of interest rate hike to 25bps in its upcoming 1st February meeting, from 50bps rise in December. In addition, US GDP grew at annualised rate of 2.9% in Q4 2022, beating consensus expectation of 2.6%, while for the full year of 2022, GDP rose 2.1%, easing concerns about prospect of recession. US durables goods orders grew 5.6% MoM in December, which was also well above consensus expectation of 2.5%. Meanwhile, US Q4 earnings season is still ongoing with a third of S&P500 companies already reported. Overall, earnings are expected to decline 5% vs. a year ago. In the week ahead, market focus will be on Fed's interest rate decision (cons.: +25bps) and US January jobs reports, for signs of sustained job gains (cons.: 185,000 vs. 223,000 in prior month).

In Indonesia, JCI was flattish (+0.35%) despite foreign inflows (Rp1.19Tn) while larger inflows continued into bond market (Rp5.27Tn). Technology and banking sectors were among the best gainers this week, on the back of strong earnings results of 2 major banks (BBCA, BBNI), while coal mining and healthcare sectors corrected the most.

The Week Ahead – Fed Meeting, US Jobs Reports, Indonesia Inflation Rate

The key economic data to focus next week are China NBS Manufacturing and Non-Manufacturing PMI (Tue 08:30), Euro Area GDP Growth Rate (Tue 17:00), China Caixin Manufacturing PMI (Wed 08:45), Indonesia Inflation (Wed 11:00), US ADP Employment Change (Wed 20:15), US ISM Manufact. PMI (Wed 22:00), Fed Interest Rate Decision (Thu 02:00), US Non Farm Payrolls & Unemployment Rate (Fri 20:30), US ISM Non-Manufacturing PMI (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 fell well short of our target, despite steadily upgraded earnings forecasts throughout 2022, partly due to drag from technology sector and fund flow reversals in the last two months of 2022. For 2023, we set our JCI target of 7,600 based on JCI earnings growth forecasts of 1% in 2023; 4% for 2024 and our 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 BBCA, 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 BBCA (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	33,978.08	1.81%	2.51%
S&P 500	4,070.56	2.47%	6.02%
Nasdaq	11,621.71	4.32%	11.04%
FTSE 100	7,765.15	-0.07%	4.21%
DAX	15,150.03	0.77%	8.81%
Nikkei 225	27,382.56	3.12%	4.94%
Hang Seng	22,688.90	2.92%	14.70%
Shanghai	3,264.81	0.00%	5.68%
MSCI World	2,785.84	2.22%	7.04%
MSCI Emerging Markets	1,051.19	1.44%	9.91%

JCI Sector Indices	Last	1W	YTD
Transportation	1,787.49	8.53%	7.55%
Technology	5,538.43	3.13%	7.29%
Financials	1,428.33	2.49%	0.95%
Consumer Non-Cyclicals	735.53	0.98%	2.65%
Property & Real Estate	710.40	0.95%	-0.12%
Consumer Cyclicals	827.58	0.81%	-2.74%
Infrastructures	857.03	0.67%	-1.34%
JCI	6,898.98	0.35%	0.71%
Basic Materials	1,262.61	-0.23%	3.82%
Industrials	1,178.79	-0.51%	0.38%
Healthcare	1,529.28	-1.74%	-2.28%
Energy	2,172.08	-2.74%	-4.71%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.20	2 bps	-23 bps
UST 10Y Yield	3.51	2 bps	-37 bps
Ind GB 10Y Yield	6.73	9 bps	-20 bps
USDIDR	14,985.00	(78.30)	-475.2
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.19Tn	-2.40Tn
Government Bond Market (Rp)	+5.27Tn	48.08Tn

Commodities	Last	1W	YTD
WTI	79.38	-2.83%	-1.40%
Brent	86.66	-1.11%	0.87%
CPO (Malaysia)	3,902.00	0.26%	-6.52%
Coal (New Castle)	355.60	-2.17%	-8.82%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,032.72	0.79%	1.40%
XIIT	IDX30	539.14	0.75%	1.53%
XIJI	JII	645.55	-1.32%	-0.33%
XISI	SMInfra18	346.61	0.08%	0.36%
XISR	SriKehati	446.46	1.07%	0.93%
XIHD	IDXHIDIV20	604.20	0.75%	-0.12%
XIPI	Pefindo I-Grade	210.05	1.83%	1.51%
XIIM	MSCI Indo Large Cap	278.73	1.64%	0.11%
XIID	IDX30	524.97	0.69%	1.34%
XIFE	FTSE ESG Indonesia	114.04	1.38%	0.48%
XIIC	Consumer Related	1,004.91	0.53%	1.02%
XIIF	Rate Sensitive	513.05	1.15%	-0.19%
XISC	BUMN Stocks	716.55	1.05%	0.37%
XISB	Sovereign Bonds	470.10	-0.54%	1.87%

Conventional				
RDMP	Equity	867.77	0.29%	0.97%
RPCF	Balanced	2,523.59	0.37%	-0.45%
RDPO 2	Fixed Income	1,052.19	0.10%	0.39%
RDPU 2	Money Market	1,389.15	0.08%	0.30%

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	52.9	10.7	10.9	4.48	14.2	4.1	1.14
2 XIIT	21.7	55.3	5.8	11.8	5.50	14.0	4.2	1.07
3 XISC	19.3	39.1	9.7	16.4	15.46	11.2	5.0	1.33
4 XISR	28.3	61.9	4.3	5.3	0.30	13.0	4.1	1.11
5 XIIF	20.0	56.4	14.9	7.0	1.75	14.7	3.8	1.29
6 XISI	42.2	24.1	18.3	15.1	0.31	11.1	4.9	1.04
7 XIPI	19.0	63.2	10.6	6.0	1.20	15.0	3.4	1.18
8 XIIC	35.7	37.9	20.3	3.6	2.50	14.8	3.4	1.09
9 XIHD	23.6	58.2	3.6	14.1	0.56	11.8	5.0	1.12
10 XIJI	43.6	0.7	26.3	27.0	2.41	12.8	4.6	1.10
11 XI ML	16.7	77.0	2.8	2.9	0.54	12.9	4.5	1.11
12 XIID	21.7	55.4	5.8	11.8	5.23	13.9	4.4	1.07
13 XIFE	27.1	59.6	5.8	6.9	0.61	12.4	4.2	1.14
Index								
IDX80	32.9	40.7	12.5	13.8		13.6	3.6	
JCI	29.8	37.0	14.8	18.4		13.7	3.4	

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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