

Worries over Fed's rate policy after last week's strong US jobs report

Global stock markets mostly corrected this week (developed markets: -1.31%; emerging markets: -2.41%), reversing gains in the prior week, in the aftermath of unexpectedly strong US January nonfarm payrolls data released on previous Friday. The hot jobs report led to market worries Fed Chair Powell may change his previously dovish tone. Powell's statement on Tuesday, reiterating his view that disinflation process has started, although the process to lower inflation to targeted level will take some time, was well received by markets as it reduced concerns over further tightening. However, subsequent hawkish comments by other Fed officials coupled with stronger than expected data on jobless claims and consumer sentiment led to stock market corrections in the remaining week. In tandem, 10-yr UST yields rose to 3.74% (+22bps) and 2-yr yields to 4.53% (+24bps), deepening the yield curve inversion. Elsewhere in Europe, several ECB officials stressed the need for more rate hikes and warned against complacency in the fight against inflation. Meanwhile, emerging markets equities corrected more significantly this week, including China's amid the spy balloon controversy and rising tensions with the US. In the week ahead, markets will likely focus on US January inflation, which is expected to show a further easing vs. December (consensus: CPI of 6.2% vs. 6.5%; core CPI: 5.5% vs. 5.7%), as well as speeches by various Fed officials during the week.

In Indonesia, JCI corrected slightly (-0.45%) despite significant foreign inflows of Rp2.69Tn this week, amid steep correction in the technology sector (-7.64%) and modest declines of the big cap stocks. In the bond market, foreign investor inflows still continuing, albeit smaller at Rp0.88Tn, while 10-yr yields rose 10bps to 6.67% and the local currency weakened against US dollars.

The Week Ahead – Fed Speeches, US Inflation Data, BI Rate Decision

The key economic data to focus next week includes US CPI Inflation Rate (Tue 20:30), Indonesia Trade Balance (Wed 11:00), US Retail Sales (Wed 20:30), ECB President Lagarde Speech (Wed 21:00), BI Interest Rate Decision (Thu 14:30), US PPI Inflation & Initial Jobless Claims (Thu 20:30),

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 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	33,869.27	-0.17%	2.18%
S&P 500	4,090.46	-1.11%	6.54%
Nasdaq	11,718.12	-2.41%	11.96%
FTSE 100	7,882.45	-0.24%	5.78%
DAX	15,307.98	-1.09%	9.94%
Nikkei 225	27,670.98	0.59%	6.04%
Hang Seng	21,190.42	-2.17%	7.12%
Shanghai	3,260.67	-0.08%	5.55%
MSCI World	2,783.91	-1.31%	6.96%
MSCI Emerging Markets	1,013.67	-2.41%	5.99%

JCI Sector Indices	Last	1W	YTD
Transportation	1,826.64	2.44%	9.91%
Healthcare	1,590.81	0.89%	1.65%
Basic Materials	1,271.19	0.38%	4.53%
Consumer Non-Cyclicals	758.54	0.27%	5.86%
Financials	1,427.96	-0.39%	0.92%
JCI	6,880.33	-0.45%	0.43%
Industrials	1,158.03	-0.46%	-1.39%
Consumer Cyclical	833.93	-0.84%	-1.99%
Energy	2,075.17	-0.89%	-8.97%
Infrastructures	851.02	-1.47%	-2.03%
Property & Real Estate	704.25	-2.35%	-0.98%
Technology	5,383.81	-7.64%	4.30%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.53	24 bps	10 bps
UST 10Y Yield	3.74	22 bps	-14 bps
Ind GB 10Y Yield	6.67	10 bps	-26 bps
USDIDR	15,187.75	92.75	-443.5
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.69Tn	+0.85Tn
Government Bond Market (Rp)	+0.88Tn	+50.3Tn

Commodities	Last	1W	YTD
WTI	79.76	8.92%	-0.93%
Brent	86.39	8.07%	0.56%
CPO (Malaysia)	3,931.00	2.08%	-5.82%
Coal (New Castle)	218.00	-11.02%	-44.10%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,035.82	0.17%	1.70%
XIIT	IDX30	538.21	0.08%	1.35%
XIJI	JII	642.24	0.42%	-0.85%
XISI	SMInfra18	348.17	1.32%	0.81%
XISR	SriKehati	452.00	1.22%	2.19%
XIHD	IDXHIDIV20	603.18	0.93%	-0.29%
XIPI	Pefindo I-Grade	211.80	1.20%	2.36%
XIIM	MSCI Indo Large Cap	280.43	0.91%	0.72%
XIID	IDX30	524.65	-0.01%	1.28%
XIFE	FTSE ESG Indonesia	115.19	0.83%	1.49%
XIIC	Consumer Related	1,024.79	0.69%	3.02%
XIIF	Rate Sensitive	515.79	-0.05%	0.35%
XISC	BUMN Stocks	717.37	0.22%	0.48%
XISB	Sovereign Bonds	471.30	-0.88%	2.13%

Conventional				
RDMP	Equity	870.43	0.48%	1.28%
RPCF	Balanced	2,527.24	0.81%	-0.31%
RDPO 2	Fixed Income	1,053.99	0.10%	0.56%
RDPU 2	Money Market	1,391.24	0.07%	0.45%

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	21.0	52.2	12.0	11.2	3.68	14.6	3.9	1.14
2 XIIT	21.2	53.8	8.6	12.4	3.99	14.4	4.2	1.07
3 XISC	19.4	39.4	10.1	15.7	15.36	11.4	5.0	1.33
4 XISR	28.0	62.1	4.6	5.0	0.24	13.3	4.2	1.11
5 XIIF	20.0	56.3	15.2	6.6	1.91	15.1	3.9	1.29
6 XISI	41.6	24.4	19.9	13.8	0.27	11.2	5.0	1.04
7 XIPI	18.2	64.2	10.7	5.8	1.13	15.3	3.5	1.18
8 XIIC	36.1	37.9	20.7	3.5	1.82	15.2	3.4	1.09
9 XIHD	21.0	61.4	2.7	14.6	0.35	12.0	5.0	1.12
10 XIJI	44.4	0.6	27.1	25.5	2.34	12.7	4.6	1.10
11 XI ML	16.1	78.1	2.8	2.6	0.48	13.1	4.6	1.11
12 XIID	20.9	54.0	8.5	12.2	4.51	14.0	4.5	1.07
13 XIFE	26.8	60.2	6.1	6.4	0.54	12.7	4.3	1.14
Index								
IDX80	33.5	41.0	12.6	12.9		13.6	3.6	
JCI	30.2	37.6	15.0	17.1		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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