

Hawkish Fed Chair testimony, strong job gains, a tech bank bankruptcy

US stock markets pulled back sharply this week and dragged down other global markets, particularly China equities, erasing nearly all of their gains in 2023. The stock market's correction started on Tuesday, after Fed Chair Powell's hawkish testimony before US Congress, and it continued on the back of deposit runs on US bank Silicon Valley Bank (SVB) and the bank's subsequent takeover by the FDIC on Friday. Powell stated the Fed still had work to do in cooling inflation and the hot labor market and that interest rate rises could be steeper and last longer than previously expected if inflation remains high – this statement was in contrast to the prior week's market expectations for a pause in rate hikes. Post this testimony, the market began to priced in possibility of a 50bps rate hike in the upcoming Fed meeting on 21-22 March. The Fed's challenges from tight US labor markets are also reflected from this week's jobs reports, which still grew much stronger than expected in February, for the private sector employment as well as the official nonfarm payrolls report (311,000 vs. consensus of 200,000). Meanwhile, concerns over exposures to SVB, which was the second largest bank failure in US history, led to a steep 8.5% drop in the S&P500 financials sector. However, in the bond market, 10-yr US Treasury yields fell 25bps to 3.70% on Friday due to market speculation that the SVB bankruptcy might cause the Fed to dial back its interest rate hikes to prevent further stresses in the financial system and the futures markets reverted back to pricing in only 25bps rate hike in the Fed's policy meeting later this month.

In Indonesia, JCI corrected more modestly (-0.71%) amid small foreign inflows of Rp0.41Tn this week, with basic materials, coal mining and industrial sectors declining the most. In the bond market, 10-yr yields was stable at 6.96% (-2bps) amid modest foreign outflows of Rp2.54Tn although the currency weakened.

The Week Ahead – US CPI & PPI Inflation Rates, BI Interest Rate Decision

The key economic data to focus next week are US Inflation Rate (Tue 19:30), Indonesia Trade Balance (Wed 11:00), US Retail Sales (Wed 19:30), US Producer Price Index (Wed 19:30), BI Interest Rate Decision (Thu 14:30), ECB Interest Rate Decision (Thu 20:15), US Michigan Consumer Sentiment Survey (Fri 21:00),

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 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	31,909.64	-4.44%	-3.73%
S&P 500	3,861.59	-4.55%	0.58%
Nasdaq	11,138.89	-4.71%	6.42%
FTSE 100	7,748.35	-2.50%	3.98%
DAX	15,427.97	-0.97%	10.80%
Nikkei 225	28,143.97	0.78%	7.85%
Hang Seng	19,319.92	-6.07%	-2.33%
Shanghai	3,230.08	-2.95%	4.56%
MSCI World	2,657.41	-3.65%	2.10%
MSCI Emerging Markets	955.28	-3.31%	-0.12%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	727.65	-0.54%	1.55%
JCI	6,765.30	-0.71%	-1.25%
Healthcare	1,544.07	-0.72%	-1.34%
Property & Real Estate	681.78	-0.79%	-4.14%
Financials	1,393.63	-0.81%	-1.51%
Transportation	1,814.30	-1.62%	9.17%
Technology	5,358.07	-1.79%	3.80%
Consumer Cyclical	829.95	-1.83%	-2.46%
Infrastructures	831.78	-2.02%	-4.24%
Industrials	1,170.18	-2.26%	-0.35%
Energy	2,050.30	-2.74%	-10.06%
Basic Materials	1,177.08	-3.44%	-3.21%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.59	-27 bps	16 bps
UST 10Y Yield	3.70	-25 bps	-18 bps
Ind GB 10Y Yield	6.96	-2 bps	3 bps
USDIDR	15,502.55	224.55	-260.5
CDS Indo 5Y	96.96	0.00	0.00

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.41Tn	-1.14Tn
Government Bond Market (Rp)	-2.54Tn	35.86Tn

Commodities	Last	1W	YTD
WTI	76.68	-3.97%	-4.76%
Brent	82.78	-3.55%	-3.64%
CPO (Malaysia)	4,093.00	-5.95%	-1.94%
Coal (New Castle)	180.00	-3.82%	-53.85%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,017.67	-0.20%	-0.08%
XIIT	IDX30	529.13	-0.24%	-0.36%
XIJI	JII	622.67	-1.49%	-3.87%
XISI	SMInfra18	343.49	-1.18%	-0.54%
XISR	SriKehati	445.20	0.58%	0.65%
XIHD	IDXHIDIV20	610.55	0.39%	0.93%
XIPI	Pefindo I-Grade	208.31	0.75%	0.67%
XIIML	MSCI Indo Large Cap	276.60	0.69%	-0.66%
XIID	IDX30	515.11	-0.27%	-0.56%
XIFE	FTSE ESG Indonesia	112.05	-0.14%	-1.28%
XIIC	Consumer Related	987.03	-0.08%	-0.78%
XIIF	Rate Sensitive	500.35	-0.57%	-2.66%
XISC	BUMN Stocks	702.19	-0.68%	-1.65%
XISB	Sovereign Bonds	466.29	0.34%	1.05%

Conventional	Last	1W	YTD	
RDMP	Equity	854.23	-0.27%	-0.60%
RPCF	Balanced	2,522.72	0.17%	-0.49%
RDPO 2	Fixed Income	1,058.57	0.10%	1.00%
RDPU 2	Money Market	1,395.80	0.08%	0.78%

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	52.4	11.3	11.1	4.33	14.2	3.8	1.14
2 XIIT	21.0	54.0	7.9	12.3	4.73	13.9	4.1	1.07
3 XISC	20.0	40.3	8.8	15.6	15.39	11.3	5.2	1.33
4 XISR	28.8	61.3	4.6	5.2	0.25	13.1	4.4	1.11
5 XIIF	20.6	57.1	14.1	6.2	1.98	14.7	4.1	1.29
6 XISI	42.2	24.6	18.1	14.7	0.45	11.2	5.2	1.04
7 XIPI	19.6	64.1	10.1	5.1	1.01	15.0	3.8	1.18
8 XIIC	36.2	38.9	20.1	3.2	1.61	14.7	3.7	1.09
9 XIHD	21.2	60.0	2.6	15.8	0.40	11.9	4.8	1.12
10 XIJI	44.2	1.2	26.0	26.3	2.31	12.5	3.9	1.10
11 XIIML	16.7	77.8	2.4	2.7	0.38	13.0	4.6	1.11
12 XIID	21.1	53.9	7.9	12.3	4.75	13.6	4.4	1.07
13 XIFE	26.2	60.8	5.7	6.9	0.43	12.5	4.3	1.14
Index								
IDX80	33.0	42.1	12.1	12.8		13.4	3.4	
JCI	30.3	38.5	14.2	17.0		13.5	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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