

US yields surged on renewed tightening concerns despite jobs slowdown

Global stock markets failed to maintain positive momentum of the prior week as major developed markets corrected following release of minutes from Fed's June 13-14 meeting, which are viewed as hawkish. The minutes revealed that, while the decision not to raise rates in the June meeting was unanimous, some FOMC members would have preferred another increase. One of these officials, Dallas Fed President Lorie Logan, stated she anticipated two more rate hikes in the remainder of the year. In turn, this led to growing expectations that rates would remain "higher for longer". Fed Funds futures pricing data, using CME FedWatch Tool, reveals that the probabilities for one more rate hike (in July or September) are the highest while the chance for two more hikes briefly rose to 44% before it fell back to 30-35% on Friday, following the release of labor data showing jobs slowdown. US Non Farm Payrolls data reported a jobs growth of 209K jobs in June vs. 306K in May, below consensus expectations of 225K jobs, while jobs growth in the prior two months were also revised lower. Meanwhile, the ADP private payrolls data still show resilient labor market as private sector added 497K jobs in June (May: 267K), well above expectations (228K). Renewed concerns over further Fed monetary policy tightening were evident in the bond market as 10-yr US Treasury yields climbed to 4.06% (+22bps) while 2-yr yields rose to 5.00% (+10bps). In the week ahead, market's focus will likely be on the release of US June inflation data for consumer and producer prices. Consensus expectations are for US headline and core inflation rates to ease further to 3.1% and 5.0% in June, respectively, from 4.0% and 5.3% in May, respectively.

In Indonesia, JCI gained 0.82% amid a small foreign fund inflows (Rp637Bn), led by a strong rebound by coal mining sector, followed by consumer cyclicals and basic materials sectors. In the bond market, 10-yr yields eased only marginally to 6.24% (-2bps) despite sustained foreign fund outflows of Rp4.15Tn.

The Week Ahead – US CPI & PPI Inflation Rates, various Fed Speeches

The key economic data to focus next week include US CPI Inflation (Wed 19:30), EU Industrial Production (Thu 16:00), ECB Monetary Policy Meeting Accounts (Thu 18:30), US PPI Inflation and Initial Jobless Claims (Thu 19:30), US Michigan Consumer Sentiment Survey (Fri 21:00). In addition, various Fed officials will be making speeches throughout the week.

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 7,400 (vs. our prior target of 7,600 set at end of 2022), based on our forward P/E target of 13x, which is still in line with the market's long-term 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, which we view as posing considerable risk to fund performances at a time of rising interest rates globally. Our two other top ETF picks are XIML (MSCI Indonesia Large Cap), for its constituent of mainly blue-chip stocks, and XIHD (High Dividend), for its focus on high yielding stocks.

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	33,734.88	-1.96%	1.77%
S&P 500	4,398.95	-1.16%	14.57%
Nasdaq	13,660.72	-0.92%	30.52%
FTSE 100	7,256.94	-3.65%	-2.61%
DAX	15,603.40	-3.37%	12.06%
Nikkei 225	32,388.42	-2.41%	24.12%
Hang Seng	18,365.70	-2.91%	-7.16%
Shanghai	3,196.61	-0.17%	3.47%
MSCI World	2,924.19	-1.43%	12.35%
MSCI Emerging Markets	980.66	-0.89%	2.54%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	733.68	0.91%	3.15%
Consumer Cyclicals	915.60	4.49%	7.60%
Transportation	1,918.61	0.94%	15.44%
Industrials	1,188.38	2.26%	1.20%
Technology	4,743.59	-0.77%	-8.11%
Infrastructures	861.28	1.27%	-0.85%
Financials	1,414.33	-0.24%	-0.04%
Consumer Non-Cyclicals	752.44	1.35%	5.01%
Healthcare	1,477.61	-0.27%	-5.58%
JCI	6,716.46	0.82%	-1.96%
Energy	1,817.55	4.58%	-20.27%
Basic Materials	1,026.00	3.32%	-15.63%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5.00	10 bps	57 bps
UST 10Y Yield	4.06	22 bps	18 bps
Ind GB 10Y Yield	6.24	-2 bps	-70 bps
USDIDR	15,135.00	142	-575
CDS Indo 5Y	89.05	0.58	-7.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+637.40Bn	+12.1Tn
Government Bond Market (Rp)	-4.15Tn	+80.56Tn

Commodities	Last	1W	YTD
WTI	72.22	2.24%	-10.02%
Brent	76.97	2.76%	-10.41%
CPO (Malaysia)	3,833.00	2.84%	-0.93%
Coal (New Castle)	139.65	9.06%	-65.45%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,073.17	0.32%	5.37%
XIIT	IDX30	558.29	0.20%	5.14%
XIJI	JII	630.45	1.86%	-2.67%
XISI	SMIInfra18	365.65	1.53%	5.87%
XISR	SriKehati	481.99	-0.32%	8.97%
XIHD	IDXHIGHDIV20	651.66	-0.04%	7.72%
XIPI	Pefindo I-Grade	220.19	-0.19%	6.41%
XIML	MSCI Indo Large Cap	299.09	-0.74%	7.42%
XIID	IDX30	542.23	0.12%	4.67%
XIFE	FTSE ESG Indonesia	117.75	0.03%	3.75%
XIIC	Consumer Related	1,045.65	0.57%	5.12%
XIIF	Rate Sensitive	536.84	0.20%	4.44%
XISC	BUMN Stocks	726.84	1.00%	1.81%
XISB	Sovereign Bonds	497.82	0.38%	7.88%

Conventional				
RDMP	Equity	898.38	0.31%	4.53%
RPCF	Balanced	2,624.06	0.04%	3.51%
RDPO 2	Fixed Income	1,076.52	-58.96%	2.71%
RDPU 2	Money Market	1,414.93	0.12%	2.16%

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	24.4	53.5	11.4	9.5	1.22	14.5	4.1	1.14
2 XIIT	24.8	55.7	7.8	10.4	1.25	14.1	4.2	1.07
3 XISC	22.1	42.9	5.6	13.5	15.82	11.8	5.4	1.33
4 XISR	26.1	62.4	4.1	6.2	1.18	13.5	4.6	1.11
5 XIIF	23.0	55.7	13.5	6.2	1.67	14.5	4.3	1.29
6 XISI	43.1	26.2	16.0	13.0	1.60	11.5	5.5	1.04
7 XIPI	19.7	63.9	10.2	4.5	1.70	16.1	3.9	1.18
8 XIIC	34.8	36.1	25.4	1.6	2.01	15.1	4.0	1.18
9 XIHD	20.2	61.7	2.4	12.5	3.26	11.4	5.2	1.12
10 XIJI	35.8	15.8	21.1	24.8	2.43	12.2	4.0	1.10
11 XIML	19.5	74.7	0.0	4.1	1.73	13.4	4.8	1.11
12 XIID	24.7	55.7	7.8	10.4	1.43	14.3	4.5	1.07
13 XIFE	25.9	58.4	6.3	7.6	1.86	13.2	4.3	1.14
Index								
IDX80	34.2	41.1	13.2	11.6		12.6	4.6	
JCI	0.0	0.0	0.0	0.0		12.7	4.1	

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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