

Slowing US economic activity, China's faltering growth, Fed rate decision

Global stock markets rally slows amid corrections in emerging market equities as investors assess global economic growth outlook and looked ahead to Fed's interest rate decision on 26th July. US economic activity continues to slow, as shown by the Conference Board's Leading Economic Index (LEI), which declined by 0.7% in June for a 15th consecutive month, the longest streak of consecutive falls since 2007-2008. The LEI is down 4.2% over a six-month period in H1 2023 vs. 3.8% contraction over the prior six months in H2 2022, while US June retail sales ticked up by 0.2% MoM, slower than consensus estimate (0.6%). However, US Treasury Secretary Yellen downplays risk of recession, citing resilience of US labor market. This view is underscored by this week's US initial jobless claims of 228,000, which was below market expectations of 242,000. Meanwhile, China's Q2 GDP grew 6.3% YoY, stronger than Q1 (4.5%), due to low base comparison with last year's Covid lockdown period, but it fell short of expectations (7.3%). China's economy expanded by 0.8% sequentially in Q2, slower vs. 2.2% growth in Q1. Elsewhere in Europe, EU economy avoided a recession in the first quarter of 2023 as revised data showed it remained unchanged instead of contracting as previously estimated. Aside from growth outlook, investors are also awaiting for Fed's interest rate decision, which was widely expected to hike by a quarter percentage point to a 5.25-5.50% range, after pausing its rate hiking cycle at its June meeting. The Fed Funds futures pricing data currently implies policy rate will remain at this level before a possible 25bps cut at its March 2024 meeting, according to CME FedWatch Tool.

In Indonesia, JCI was flattish (+0.16%) amid returning fund inflows (+Rp1.66Tn), led by energy, consumer cyclicals, property, basic materials stocks, while most other sectors corrected, while 10-yr yield rose marginally to 6.25% (+7bps).

The Week Ahead – Fed Meeting, US GDP Growth Rate, US PCE Price Index

The key economic data to focus next week are Indonesia Interest Rate Decision (Tue 14:30), Fed Interest Rate Decision (Thu 01:00), ECB Interest Rate Decision (Thu 19:15), US GDP Growth Rate (Thu 19:30), US Durable Goods Orders and US Initial Jobless Claims (Thu 19:30), US Personal Income and Spending Growth (Fri 19:30), US PCE Price Index (Fri 19:30).

Investment Conclusion

Fed's aggressive rate hikes has been a key risk for global markets since 2022 and investor concerns have shifted from inflation to growth to inflation again amid surprisingly resilient US economy. However, with the Fed Fund's rate close to peaking and a Fed pivot to easing now expected in early 2024 (pushed back from Q4 2023), we see positive catalysts for JCI to achieve our 7,400 target given Indonesia's stable economy, financial markets and currency expectations, as reflected in the more than halving of IDR currency risk premiums (vs. USD). Indonesia's equity market has lagged global markets in 2023, partly because it remained stable and outperformed in 2022 when the developed equity markets corrected due to Fed's aggressive rate hikes and its impact on economic growth. Our JCI target of 7,400 is 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 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 since 2022, due to their overweight of banking sector, and more importantly, these two ETFs have no exposure to technology stocks, which we view as posing considerable risk to fund performances at time of rising interest rates globally. Our two other top ETF picks are XIIML (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	35,227.69	2.08%	6.28%
S&P 500	4,536.34	0.69%	18.15%
Nasdaq	14,032.80	-0.57%	34.07%
FTSE 100	7,663.73	3.08%	2.84%
DAX	16,177.22	0.45%	16.19%
Nikkei 225	32,304.25	-0.27%	23.80%
Hang Seng	19,075.26	-1.74%	-3.57%
Shanghai	3,167.75	-2.16%	2.54%
MSCI World	3,028.71	0.36%	16.37%
MSCI Emerging Markets	1,001.62	-2.61%	4.73%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	768.65	1.06%	8.07%
Consumer Cyclicals	927.18	1.21%	8.97%
Transportation	1,932.87	0.26%	16.30%
Industrials	1,188.92	-0.65%	1.24%
Technology	4,812.60	-2.69%	-6.77%
Infrastructures	856.63	-0.05%	-1.38%
Financials	1,433.53	0.09%	1.31%
Consumer Non-Cyclicals	761.89	-0.04%	6.33%
Healthcare	1,553.68	-0.80%	-0.72%
JCI	6,880.80	0.16%	0.44%
Energy	1,915.06	2.75%	-15.99%
Basic Materials	1,051.85	0.70%	-13.51%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.85	8 bps	42 bps
UST 10Y Yield	3.84	0 bps	-4 bps
Ind GB 10Y Yield	6.25	7 bps	-69 bps
USDIDR	15,025.00	67	-610
CDS Indo 5Y	82.05	0.33	-14.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.66Tn	+14.77Tn
Government Bond Market (Rp)	+0.70Bn	+86.19Tn

Commodities	Last	1W	YTD
WTI	76.58	1.54%	-4.59%
Brent	80.58	0.89%	-6.20%
CPO (Malaysia)	4,027.00	3.95%	4.08%
Coal (New Castle)	131.00	-0.49%	-67.59%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,090.24	-0.01%	7.04%
XIIT	IDX30	567.90	0.03%	6.95%
XIJI	JII	630.67	-1.03%	-2.63%
XISI	SMInfra18	370.93	0.43%	7.40%
XISR	SriKehati	488.75	-0.22%	10.50%
XIHD	IDXHIDIV20	662.73	0.28%	9.55%
XIPI	Pefindo I-Grade	225.11	0.60%	8.79%
XIIML	MSCI Indo Large Cap	304.52	0.08%	9.37%
XIID	IDX30	550.81	-0.04%	6.33%
XIFE	FTSE ESG Indonesia	120.00	0.05%	5.72%
XIIC	Consumer Related	1,067.52	0.14%	7.32%
XIIF	Rate Sensitive	544.77	0.05%	5.98%
XISC	BUMN Stocks	737.85	0.53%	3.35%
XISB	Sovereign Bonds	500.18	-0.18%	8.39%

Conventional				
RDMP	Equity	914.37	0.50%	6.39%
RPCF	Balanced	2,657.48	0.31%	4.83%
RDPO 2	Fixed Income	1,078.71	0.10%	2.92%
RDPU 2	Money Market	1,417.40	0.08%	2.34%

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	24.0	54.2	11.4	9.6	0.79	14.9	4.0	1.14
2 XIIT	24.4	56.4	8.0	10.5	0.70	14.4	4.2	1.07
3 XISC	22.6	44.5	6.0	14.4	12.57	12.2	5.3	1.33
4 XISR	25.6	63.3	4.2	6.3	0.63	13.7	4.5	1.11
5 XIIF	22.4	55.7	13.1	6.2	2.57	11.6	4.2	1.29
6 XISI	42.3	27.5	16.5	13.4	0.42	11.9	5.4	1.04
7 XIPI	19.0	65.5	10.2	4.5	0.82	16.4	3.8	1.18
8 XIIC	33.8	36.2	25.2	1.6	3.13	15.4	3.9	1.18
9 XIHD	19.6	62.2	2.5	12.5	3.15	11.7	5.1	1.12
10 XIJI	35.5	14.8	20.9	25.4	3.41	12.3	4.1	1.10
11 XIML	19.3	76.0	0.0	4.2	0.50	13.7	4.7	1.11
12 XIID	24.3	56.4	8.0	10.4	0.85	14.6	4.4	1.07
13 XIFE	25.5	59.2	7.0	7.6	0.80	14.2	4.3	1.14
Index								
IDX80	34.0	41.1	13.2	11.7		12.9	4.5	
JCI	29.5	38.6	14.8	15.1		13.0	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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