

Fitch's US credit rating downgrade lifted yields, US jobs growth slowdown

Global stock markets corrected this week, across both developed and emerging equities markets, after their bullish trends in June-July, following news of Fitch's downgrade of US credit rating to AA+ (from AAA). In turn, this news lifted 10-yr US Treasury yields to 4.2%, before yields end the week lower at 4.09% (+9bps) after US labor data showed slower jobs growth. Fitch's downgrade surprised markets as it is only the second credit downgrade in US history after a similar decision by S&P in August 2011 (which it has not reversed until now), while US political brinkmanship over debt limits is also not new. However, we view this downgrade should not impact the fundamental drivers of US economy and the stock markets. This week's release of US jobs reports reveal still healthy labor market albeit slowing significantly compared to the prior five months. Non farm payroll data showed jobs growth of 187,000 in July, which was below consensus expectations of 200,000, but it was similar to June's downwardly revised figure of 185,000. Similarly, the ADP private sector employment survey revealed hiring of 324,00 workers in July, well above consensus expectations of 189,000, but it was slower than June's downwardly revised growth of 455,000 jobs. Elsewhere in Europe, EU inflation eased to 5.3% in July (June: 5.5%), albeit it was still well above the 2% target, while EU GDP expanded 0.3% QoQ in the second quarter, after stagnating in the prior two quarters. In the week ahead, investors focus will likely be on the release of US July inflation rates for both CPI and PPI, which are expected to be relatively stable at 0.2% MoM.

In Indonesia, JCI also corrected by 0.69% amid fund flows reversals to outflows of Rp972Bn while 10-yr yields also rose to 6.34% (+7bps) despite fund inflows of Rp1.76Tn. Most equity sectors corrected this week except for basic materials, property and industrials stocks.

The Week Ahead – Indonesia GDP Growth, US CPI & PPI Inflation Rates

The key economic data to focus next week include Indonesia GDP Growth Rate (Mon 11:00), US CPI Inflation Rate (Thu 19:30), US Initial Jobless Claims (Thu 19:30), US PPI Inflation Rate (Fri 19:30), US University of Michigan's Consumer Sentiment Survey (Fri 21:00).

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 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 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 XIHD (High Dividend), for its focus on high yielding stocks, and XIML (MSCI Indonesia Large Cap), for its constituent of mainly blue-chip 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	35,065.62	-1.11%	5.79%
S&P 500	4,478.03	-2.27%	16.63%
Nasdaq	13,909.24	-2.84%	32.89%
FTSE 100	7,564.37	-1.69%	1.51%
DAX	15,951.86	-3.14%	14.57%
Nikkei 225	32,192.75	-1.73%	23.37%
Hang Seng	19,539.46	-1.93%	-1.22%
Shanghai	3,288.08	0.37%	6.44%
MSCI World	2,986.54	-2.33%	14.75%
MSCI Emerging Markets	1,018.02	-2.41%	6.45%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	763.54	1.34%	7.35%
Consumer Cyclical	914.34	-1.50%	7.46%
Transportation	1,880.11	-2.50%	13.13%
Industrials	1,208.13	0.84%	2.88%
Technology	4,567.96	-2.95%	-11.51%
Infrastructures	846.81	-0.47%	-2.51%
Financials	1,420.88	-0.88%	0.42%
Consumer Non-Cyclical	747.34	-0.70%	4.30%
Healthcare	1,502.23	-1.80%	-4.01%
JCI	6,852.84	-0.69%	0.03%
Energy	1,921.42	-1.33%	-15.71%
Basic Materials	1,100.89	2.25%	-9.48%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.77	-12 bps	34 bps
UST 10Y Yield	4.04	9 bps	17 bps
Ind GB 10Y Yield	6.34	7 bps	-60 bps
USDIDR	15,152.90	45.40	-460.5
CDS Indo 5Y	77.65	3.02	-19.31

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-972Bn	+14.5Tn
Government Bond Market (Rp)	+1.76Tn	+93.62Tn

Commodities	Last	1W	YTD
WTI	82.82	2.67%	3.19%
Brent	86.10	2.67%	0.22%
CPO (Malaysia)	3,859.00	-3.60%	-0.26%
Coal (New Castle)	136.00	-2.16%	-66.35%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	1,085.40	-0.26%	6.57%
XIIT	IDX30	565.69	-0.19%	6.53%
XIJI	JII	628.42	0.30%	-2.98%
XISI	SMInfra18	373.95	0.06%	8.27%
XISR	SriKehati	489.95	0.21%	10.77%
XIHD	IDXHIDIV20	664.31	-0.15%	9.81%
XIPI	Pefindo I-Grade	224.64	0.06%	8.56%
XIML	MSCI Indo Large Cap	303.98	-0.32%	9.18%
XIID	IDX30	547.86	-0.29%	5.76%
XIFE	FTSE ESG Indonesia	119.24	-0.17%	5.06%
XIIC	Consumer Related	1,056.79	-0.02%	6.24%
XIIF	Rate Sensitive	542.79	0.14%	5.60%
XISC	BUMN Stocks	731.46	0.18%	2.45%
XISB	Sovereign Bonds	496.65	-0.30%	7.63%

Conventional		Last	1W	YTD
RDMP	Equity	914.76	0.13%	6.44%
RPCF	Balanced	2,664.83	0.24%	5.12%
RDPO 2	Fixed Income	1,080.74	0.09%	3.11%
RDPU 2	Money Market	1,419.86	0.08%	2.51%

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	23.8	53.5	12.0	10.1	0.52	14.7	4.1	1.14
2 XIIT	23.6	56.1	8.7	11.4	0.30	14.1	4.2	1.07
3 XISC	22.4	43.6	6.0	15.5	12.50	12.1	5.3	1.33
4 XISR	24.3	64.2	4.3	6.6	0.57	13.6	4.5	1.11
5 XIIF	21.9	55.4	12.1	6.5	4.07	11.6	4.2	1.29
6 XISI	42.1	26.2	16.5	14.7	0.47	11.8	5.4	1.04
7 XIPI	18.2	65.9	10.3	4.6	1.02	16.3	3.9	1.18
8 XIIC	32.7	37.1	24.3	1.7	4.15	15.2	3.9	1.18
9 XIHD	20.7	61.7	2.6	14.4	0.53	11.7	5.1	1.12
10 XIJI	35.2	16.0	21.8	26.8	0.16	12.2	4.1	1.10
11 XIIML	18.4	76.8	0.0	4.5	0.38	13.6	4.7	1.11
12 XIID	23.5	56.0	8.7	11.3	0.50	15.5	4.4	1.07
13 XIFE	24.3	60.0	7.0	7.9	0.74	14.1	4.3	1.14
Index								
IDX80	32.7	41.9	13.3	12.1		12.7	31.8	
JCI	28.6	39.0	14.8	15.0		12.7	4.0	

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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