

Fed is prepared to approve further rate hikes but will proceed carefully

World's stock market indices mostly rebounded this week, after recording three consecutive weeks of declines, in both developed and emerging stock markets. However, US stock indices were mixed with Nasdaq posting strongest recovery, followed by S&P500, while DJIA finished down again. During the Fed's annual economic policy symposium in Jackson Hole, Wyoming, Fed Chair Powell stated the Fed is prepared to approve further interest-rate increases at some point but will proceed carefully as past increases haven't yet fully cycled through the US economy. He stated the Fed will await further economic data as it decides on the timing of any further hikes. This statement was made amid mixed signals on US economy, which has stayed more resilient than most expected, but some downside risks to growth remain. An indicator of business activity (S&P Global US Composite PMI) fell to 50.4 in August, from 52.0 in July, below expectations, which is its weakest expansion since February. In addition, US durable goods orders plummeted 5.2% MoM in July, after 4.4% growth in June, also worse than expectations for a 4% decline. However, US new home sales rebounded, rising 4.4% MoM in July vs. -2.8% in June, despite the highest level of 30-year fixed mortgage rates since 2001, although existing home sales still fell by 2.2%. Next week, market's attention will likely be on data releases on US jobs growth (Non Farm Payrolls), with expectations of 170,000 jobs in August, or continuing the slowdown in the prior month (July: 187,000).

In Indonesia, JCI gained 0.52% amid continuing fund outflows in both equity (Rp125Bn) and bond markets (Rp7.53Tn). Sector performances were mixed with basic materials and coal mining sectors gaining the most on the back of higher commodity prices while technology stocks corrected the most.

The Week Ahead – China PMIs, US PCE Price Index, US Jobs Reports

The key economic data to focus next week are US ADP Employment Change (Wed 19:15), China NBS Manufacturing & Non Manufacturing PMI (Wed 08:30), EU Inflation Rate (Wed 16:00), US PCE Price Index, Personal Income & Spending (Thu 19:30), China Caixin Manufacturing PMI (Fri 08:45), Indonesia Inflation Rate (Fri 11:00), US Non Farm Payrolls and Unemployment Rate (Fri 19:30), US ISM Manufacturing PMI (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 XIIML (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	34,346.90	-0.45%	3.62%
S&P 500	4,405.71	0.82%	14.75%
Nasdaq	13,590.65	2.26%	29.85%
FTSE 100	7,338.58	1.05%	-1.52%
DAX	15,631.82	0.37%	12.27%
Nikkei 225	31,624.30	0.55%	21.19%
Hang Seng	17,956.38	0.03%	-9.23%
Shanghai	3,064.07	-2.17%	-0.82%
MSCI World	2,911.99	0.50%	11.88%
MSCI Emerging Markets	971.04	0.68%	1.53%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	748.94	-0.94%	5.30%
Consumer Cyclical	910.98	0.34%	7.06%
Transportation	1,899.65	3.34%	14.30%
Industrials	1,172.13	-0.97%	-0.19%
Technology	4,325.40	-2.64%	-16.21%
Infrastructures	880.10	0.22%	1.32%
Financials	1,411.89	-0.52%	-0.21%
Consumer Non-Cyclical	754.25	0.14%	5.26%
Healthcare	1,463.98	-0.58%	-6.45%
JCI	6,895.44	0.52%	0.65%
Energy	2,033.07	1.59%	-10.81%
Basic Materials	1,180.63	5.47%	-2.92%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5.04	10 bps	61 bps
UST 10Y Yield	4.25	0 bps	38 bps
Ind GB 10Y Yield	6.53	2 bps	-42 bps
USDIDR	15,295.00	10	-283
CDS Indo 5Y	86.33	-5.31	-10.63

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-125Bn	+14Tn
Government Bond Market (Rp)	-7.53Tn	+84.86Tn

Commodities	Last	1W	YTD
WTI	80.11	-1.40%	-0.19%
Brent	84.52	-0.33%	-1.62%
CPO (Malaysia)	3,947.00	6.39%	2.02%
Coal (New Castle)	149.00	1.36%	-63.13%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,084.57	0.07%	6.49%
XIIT	IDX30	563.70	0.08%	6.15%
XIJI	JII	631.34	0.44%	-2.53%
XISI	SMInfra18	378.08	-0.15%	9.47%
XISR	SriKehati	488.85	0.10%	10.52%
XIHD	IDXHIDIV20	667.91	0.38%	10.41%
XIPI	Pefindo I-Grade	227.52	0.74%	9.95%
XIIML	MSCI Indo Large Cap	301.48	-0.24%	8.28%
XIID	IDX30	544.98	0.02%	5.20%
XIFE	FTSE ESG Indonesia	119.00	0.06%	4.84%
XIIC	Consumer Related	1,056.10	-0.17%	6.17%
XIIF	Rate Sensitive	539.77	-0.50%	5.01%
XISC	BUMN Stocks	736.55	0.17%	3.17%
XISB	Sovereign Bonds	489.34	-0.24%	6.04%

Conventional	Last	1W	YTD	
RDMP	Equity	909.09	-0.14%	5.78%
RPCF	Balanced	2,664.34	0.10%	5.10%
RDPO 2	Fixed Income	1,084.06	0.10%	3.43%
RDPU 2	Money Market	1,423.62	0.09%	2.79%

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	23.2	53.8	12.6	10.0	0.49	14.6	4.0	1.14
2 XIIT	22.8	56.5	9.2	11.3	0.26	14.0	4.2	1.07
3 XISC	22.6	43.7	6.8	16.0	10.88	12.2	5.3	1.33
4 XISR	24.4	64.5	4.3	6.3	0.49	13.6	4.5	1.11
5 XIIF	22.5	57.5	9.7	7.3	3.01	13.4	4.7	1.29
6 XISI	43.2	26.2	16.2	14.0	0.39	12.0	5.3	1.04
7 XIPI	18.2	65.9	10.7	4.4	0.85	16.5	3.9	1.18
8 XIIC	32.2	36.2	21.2	1.6	8.89	15.2	3.9	1.18
9 XIHD	20.7	61.8	2.6	14.6	0.21	11.7	5.0	1.12
10 XIJI	34.9	15.2	22.8	26.6	0.49	12.1	3.9	1.10
11 XIML	17.6	77.6	0.0	4.5	0.30	13.7	4.7	1.11
12 XIID	22.7	56.5	9.2	11.2	0.30	15.6	4.3	1.07
13 XIFE	23.8	60.6	7.3	7.6	0.66	14.0	4.3	1.14
Index								
IDX80	32.3	42.0	13.8	12.0		12.7	4.7	
JCI	27.9	38.7	15.0	15.2		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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