

US yields spike on Fed's hawkish tone, rising China slowdown worries

Global stock markets declined for the third consecutive week with steeper falls recorded in emerging markets amid stronger US dollars and growing concerns over China's faltering economy and its troubled property sector. The 10-year yield on US Treasuries briefly touched 3.2%, the highest since November 2007, as Fed minutes and US economic data raised expectations that rates are likely to remain high for longer than previously expected. Minutes from the Fed's July meeting revealed Fed officials were divided over the need for further rate hikes and investors are worried over how policymakers would respond to continued growth signals from US economy. US retail sales growth accelerated to 0.7% MoM in July (June: 0.3%), beating consensus forecasts of a 0.4% rise, while US industrial production growth of 1% MoM in July (June: -0.8%) also exceeded market expectations of a 0.3% rise. This upside economic data surprises raised the current growth outlook but also elevate risks of a 2024 slowdown if rates stay high for longer. Meanwhile, concerns over China's deepening economic problems and troubled property sector, amid Evergrande Group's bankruptcy filing in New York this week, weighed on Asian stock markets as its central bank cut rates for the second time in three months. In the week ahead, investors' attention will be on the Fed's annual three-day economic policy symposium in Jackson Hole, Wyoming, and Fed Chair Powell Speech.

In Indonesia, JCI corrected 0.29% amid fund outflows in both equity and bond markets of Rp2.17Tn and Rp1.61Tn, respectively. Most sectors corrected except for energy (coal mining), infrastructure, basic materials, and consumer sectors. IDR 10-year yields also rose significantly by 16bps to 6.49% this week.

The Week Ahead – BI Meeting, US Durables Goods Orders, Fed Speeches

The key economic data to focus next week include BI Interest Rate Decision (Thu 14:30), US Durable Goods Orders, US Initial Jobless Claims (Thu 19:30), US Jackson Hole Symposium (Thursday to Saturday), US Fed Chair Powell Speech (Fri 21:05), ECB President Lagarde Speech (Sat 02:00)

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	34,500.66	-2.21%	4.08%
S&P 500	4,369.71	-2.11%	13.81%
Nasdaq	13,290.78	-2.59%	26.98%
FTSE 100	7,262.43	-3.48%	-2.54%
DAX	15,574.26	-1.63%	11.86%
Nikkei 225	31,450.76	-3.15%	20.53%
Hang Seng	17,950.85	-5.89%	-9.25%
Shanghai	3,131.95	-1.80%	1.38%
MSCI World	2,897.50	-2.53%	11.33%
MSCI Emerging Markets	964.44	-3.34%	0.84%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	756.05	-0.13%	6.30%
Consumer Cyclical	907.88	-1.35%	6.70%
Transportation	1,838.24	-1.36%	10.61%
Industrials	1,183.57	-1.58%	0.79%
Technology	4,442.68	-0.11%	-13.94%
Infrastructures	878.14	2.12%	1.09%
Financials	1,419.24	-0.32%	0.30%
Consumer Non-Cyclical	753.23	0.24%	5.12%
Healthcare	1,472.57	-0.43%	-5.90%
JCI	6,859.91	-0.29%	0.14%
Energy	2,001.28	3.47%	-12.21%
Basic Materials	1,119.40	0.78%	-7.95%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.94	5 bps	52 bps
UST 10Y Yield	4.25	10 bps	38 bps
Ind GB 10Y Yield	6.49	16 bps	-45 bps
USDIDR	15,321.00	106	-353
CDS Indo 5Y	91.64	8.51	-5.32

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.17Tn	+13.54Tn
Government Bond Market (Rp)	-1.61Tn	+92.40Tn

Commodities	Last	1W	YTD
WTI	81.55	-1.97%	1.61%
Brent	84.79	-2.32%	-1.30%
CPO (Malaysia)	3,871.00	-0.36%	0.05%
Coal (New Castle)	147.00	2.08%	-63.63%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,083.84	-0.83%	6.42%
XIIT	IDX30	563.23	-0.93%	6.07%
XIJI	JII	628.59	-0.25%	-2.95%
XISI	SMInfra18	378.67	0.51%	9.64%
XISR	SriKehati	488.38	-1.55%	10.41%
XIHD	IDXHIDIV20	665.40	-1.07%	9.99%
XIPI	Pefindo I-Grade	225.85	-1.30%	9.15%
XIIML	MSCI Indo Large Cap	302.21	-1.52%	8.54%
XIID	IDX30	544.86	-0.99%	5.18%
XIFE	FTSE ESG Indonesia	118.92	-1.02%	4.78%
XIIC	Consumer Related	1,057.95	-0.75%	6.35%
XIIF	Rate Sensitive	542.46	-0.61%	5.53%
XISC	BUMN Stocks	735.31	0.02%	2.99%
XISB	Sovereign Bonds	490.52	-1.20%	6.30%

Conventional	Last	1W	YTD
RDMP Equity	910.41	-0.89%	5.93%
RPCF Balanced	2,661.70	-0.86%	4.99%
RDPO 2 Fixed Income	1,082.96	0.10%	3.32%
RDPU 2 Money Market	1,422.39	0.09%	2.70%

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	23.7	53.5	12.4	9.9	0.50	14.8	4.0	1.14
2 XIIT	23.3	56.2	9.0	11.2	0.27	14.2	4.2	1.07
3 XISC	22.9	43.8	5.7	15.1	12.43	12.3	5.2	1.33
4 XISR	24.6	64.2	4.3	6.4	0.52	13.8	4.5	1.11
5 XIIF	22.6	57.4	9.7	6.4	3.91	11.8	4.1	1.29
6 XISI	43.4	25.9	16.0	14.3	0.41	12.0	5.3	1.04
7 XIPI	18.5	65.8	10.4	4.3	0.91	16.6	3.8	1.18
8 XIIC	33.4	36.0	21.2	1.5	7.84	15.4	3.9	1.18
9 XIHD	20.9	61.7	2.7	14.5	0.25	11.9	5.0	1.12
10 XIJI	35.6	15.5	22.5	26.4	0.04	12.2	4.0	1.10
11 XIIML	18.1	77.3	0.0	4.6	0.12	13.8	4.6	1.11
12 XIID	23.2	56.2	9.0	11.2	0.37	15.7	4.3	1.07
13 XIFE	24.3	60.3	7.2	7.6	0.69	14.2	4.2	1.14
Index								
IDX80	32.3	42.4	13.5	11.8		12.6	4.6	
JCI	28.2	39.3	14.9	14.9		12.6	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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Devandra Harahap	Institutional Marketing	devan.harahap@ipc.co.id	Ext. 2315	0856-1167-750
Dewi Rijanti Suherman	Institutional Marketing	dewi.suherman@ipc.co.id	Ext. 2313	0812-9665-7019

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