

**Cooling US labor market, growing expectations of Fed to hold rate steady**

Global stock markets continued recovering this week, particularly in developed markets, amid signs of softening US economy and its labor markets, which have positive interest rate implications. Firstly, US Q2 GDP growth was revised down to 2.1% annualised rate, from a preliminary estimate of 2.4% growth in late July. Secondly, there are early signs of a softening in the labor market. Job openings and quit rate are falling. The ADP private payroll growth of 177,000 for August was below expectations (195,000) and sharp deceleration from 324,000 in July. The US unemployment rate ticked higher, from 3.5% to 3.8%, as July's job gains were revised down – this is the highest unemployment rate since February 2022. Wage growth also shows signs of easing as average hourly earnings rose by only 0.2% MoM in August (July: 0.4%), the smallest rise since February 2022. Thirdly, on the inflation front, core PCE prices, which are the Fed's preferred inflation gauge, rose 0.2% MoM in July, maintaining the same pace as in June, although its annual rate ticked up slightly, as expected, to 4.24% (June: 4.09%). These factors led to growing market expectations that the Fed would remain on hold for the rest of this year. Fed President Raphael Bostic's comment that he believed the current level of interest rates was appropriately restrictive and on track to bring down the inflation rate to the Fed's target of 2.0% also boosted market sentiment.

In Indonesia, JCI gained 1.19% amid diminishing fund outflows from the equity market this week (at only Rp1.16Bn) while foreign outflows from bond market remains significant at Rp3.21Tn. Most of the equity sectors gained, except for consumer cyclicals and consumer non-cyclicals sectors, led by basic materials, infrastructure, technology, coal mining stocks amid rising commodity prices.

**The Week Ahead – China and US Services PMIs, Fed Speeches**

The key economic data to focus next week are ECB President Lagarde Speech (Mon 20:30), China Caixin Services PMI (Tue 08:45), US Factory Orders (Tue 21:00), EU Retail Sales (Wed 16:00), US ISM Services PMI & Employment (Wed 21:00), US Initial Jobless Claims (Thu 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 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	34,837.71	1.43%	5.10%
S&P 500	4,515.77	2.50%	17.61%
Nasdaq	14,031.81	3.25%	34.06%
FTSE 100	7,464.54	1.72%	0.17%
DAX	15,840.34	1.33%	13.77%
Nikkei 225	32,710.62	3.44%	25.35%
Hang Seng	18,382.06	2.37%	-7.07%
Shanghai	3,133.25	2.26%	1.42%
MSCI World	2,989.51	2.66%	14.86%
MSCI Emerging Markets	985.68	1.51%	3.06%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	751.21	0.30%	5.62%
Consumer Cyclicals	903.13	-0.86%	6.14%
Transportation	1,786.33	-5.97%	7.48%
Industrials	1,181.33	0.79%	0.60%
Technology	4,446.82	2.81%	-13.86%
Infrastructures	905.85	2.93%	4.28%
Financials	1,416.23	0.31%	0.09%
Consumer Non-Cyclicals	752.73	-0.20%	5.05%
Healthcare	1,476.48	0.85%	-5.65%
JCI	6,977.65	1.19%	1.85%
Energy	2,066.21	1.63%	-9.36%
Basic Materials	1,223.90	3.66%	0.64%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.88	-20 bps	45 bps
UST 10Y Yield	4.18	-5 bps	31 bps
Ind GB 10Y Yield	6.39	-13 bps	-55 bps
USDIDR	15,225.08	-69.92	-273
CDS Indo 5Y	81.67	-4.66	-15.29

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.165Bn	+12.8Tn
Government Bond Market (Rp)	-3.21Tn	+83.10Tn

Commodities	Last	1W	YTD
WTI	85.55	7.17%	6.59%
Brent	88.55	4.82%	3.07%
CPO (Malaysia)	4,040.00	6.18%	4.42%
Coal (New Castle)	159.00	6.43%	-60.66%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,095.05	0.97%	7.52%
XIIT	IDX30	570.87	1.27%	7.50%
XIJJ	JII	636.05	0.75%	-1.80%
XISI	SMInfra18	382.11	1.07%	10.64%
XISR	SriKehati	490.44	0.32%	10.88%
XIHD	IDXHIDIV20	671.80	0.58%	11.05%
XIPI	Pefindo I-Grade	230.24	1.20%	11.27%
XIIML	MSCI Indo Large Cap	303.19	0.57%	8.89%
XIID	IDX30	551.41	1.18%	6.44%
XIFE	FTSE ESG Indonesia	119.79	0.67%	5.54%
XIIC	Consumer Related	1,055.59	-0.05%	6.12%
XIIF	Rate Sensitive	544.21	0.82%	5.88%
XISC	BUMN Stocks	741.21	0.63%	3.82%
XISB	Sovereign Bonds	497.21	1.61%	7.75%

Conventional	Last	1W	YTD	
RDMP	Equity	915.72	0.73%	6.55%
RPCF	Balanced	2,674.19	0.37%	5.49%
RDPCDA	Balanced	1,000.99	0.29%	N/A
RDPCDB	Balanced	1,000.13	0.26%	N/A
RDPO 2	Fixed Income	1,084.98	0.08%	3.52%
RDPD 2	Money Market	1,424.51	0.06%	2.85%

**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	53.5	12.7	10.1	0.47	14.7	3.9	1.14
2 XIIT	22.8	56.1	9.4	11.4	0.24	14.0	4.1	1.07
3 XISC	23.1	43.7	6.7	15.7	10.80	12.3	5.1	1.33
4 XISR	25.0	64.0	4.2	6.4	0.40	13.6	4.5	1.11
5 XIIF	22.8	57.3	9.6	7.3	2.91	13.4	4.6	1.29
6 XISI	43.1	26.1	16.1	14.4	0.35	12.0	5.2	1.04
7 XIPI	18.1	65.5	11.0	4.6	0.77	16.6	3.8	1.18
8 XIIC	32.1	36.7	21.2	1.6	8.39	15.3	3.9	1.18
9 XIHD	20.5	62.0	2.6	14.7	0.17	11.8	5.0	1.12
10 XIJI	35.4	16.0	22.3	26.4	-0.11	12.2	3.9	1.10
11 XIML	18.1	79.0	0.0	2.3	0.50	13.7	4.6	1.11
12 XIID	22.8	56.2	9.4	11.4	0.20	15.7	4.3	1.07
13 XIFE	23.9	60.4	7.4	7.8	0.62	14.0	4.2	1.14
<b>Index</b>								
IDX80	32.2	41.8	13.9	12.1		12.9	4.6	
JCI	27.8	38.5	15.0	15.3		12.9	3.9	

**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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