

Surging bond yields amid strong US jobs growth but wage rise is slowing

An upshift in US long-term interest rate expectations continued to wreak havoc on global markets amid unexpectedly strong US jobs growth. In turn, this led to steepening of the US yield curve and strengthening of the US Dollar. Although broad-based US stock indices managed to recover from their four consecutive weekly declines, global stocks were still under pressures from surging 10-yr US Treasury yields to 4.80% (+22 bps), or a 80bps rise in just the past two months. Since the start of the pandemic in March 2020, the prices of US Treasury bonds with maturities of 10 years or more have plummeted by around 46%, according to Bloomberg, and ranks among the worst market crashes in history. US stocks initially corrected after Friday's nonfarm payrolls report showed jobs growth of 336,000 in September, doubling the consensus expectation, but they recovered strongly to end the week higher, after details show hourly wage growth slowed to 0.2% MoM; 4.2% YoY, better than consensus expectations of 0.3% and 4.3%, respectively. However, bond prices fell further as 10-yr yields climbed by 8bps during the day to highest level since 2007. Meanwhile, oil prices dropped nearly 9% during the week on prospect of lower global demand, which is positive for inflation. In the week ahead, markets will focus on US consumer and producer prices inflation for September. Consensus expectations are for the headline CPI inflation rate to slow to 0.3% MoM; 3.6% YoY (from 0.6% / 3.7%, respectively, in August) with the core inflation rate at 0.3% and 4.1%, respectively.

In Indonesia, JCI fell 0.74% amid marginal equity outflows while bond market continued to see large outflows (Rp9.64Tn), which pushed the 10-yr IDR yields higher to 7.01% (+10bps). Mixed equity sector performances with energy, basic materials and industrials sectors corrected the most while healthcare, consumer and technology sectors gaining this week.

The Week Ahead – Fed Speeches, FOMC Minutes, US PPI & CPI Inflation

The key economic data to focus next week are Indonesia Consumer Confidence (Mon 10:00), Indonesia Retail Sales (Wed 10:00), US Producer Prices Inflation (Wed 19:30), FOMC Minutes (Thur 01:00), US Consumer Prices (CPI) Inflation and US Initial Jobless Claims (Thu 19:30), China CPI & PPI Inflation Rates (Fri 08:30), and US Michigan 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 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	33,407,58	-0,30%	0,79%
S&P 500	4,308,50	0,48%	12,22%
Nasdaq	13,431,34	1,60%	28,33%
FTSE 100	7,494,58	-1,49%	0,57%
DAX	15,229,77	-1,02%	9,38%
Nikkei 225	31,022,10	-2,62%	18,88%
Hang Seng	17,485,98	-1,82%	-11,60%
Shanghai	3,110,89	0,00%	0,70%
MSCI World	2,845,23	-0,28%	9,32%
MSCI Emerging Markets	937,34	-1,62%	-1,99%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	721,68	0,07%	1,47%
Consumer Cyclical	868,53	0,21%	2,07%
Transportation	1,803,19	-2,65%	8,50%
Industrials	1,144,73	-3,49%	-2,52%
Technology	4,352,09	0,38%	-15,69%
Infrastructures	905,55	-0,40%	4,25%
Financials	1,395,21	-0,40%	-1,39%
Consumer Non-Cyclicals	766,67	0,78%	6,99%
Healthcare	1,493,14	4,42%	-4,59%
JCI	6,888,52	-0,74%	0,55%
Energy	2,008,24	-5,79%	-11,90%
Basic Materials	1,263,59	-3,02%	3,90%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5,08	3 bps	66 bps
UST 10Y Yield	4,80	22 bps	92 bps
Ind GB 10Y Yield	7,01	10 bps	7 bps
USDIDR	15,648	198	80,00
CDS Indo 5Y	99,78	6,28	2,82

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0,07Tn	+8,93Tn
Government Bond Market (Rp)	-9,64Tn	+57,64Tn

Commodities	Last	1W	YTD
WTI	82,96	-8,57%	3,36%
Brent	84,59	-8,35%	-1,54%
CPO (Malaysia)	3,600,00	-4,43%	-6,95%
Coal (New Castle)	140,00	-12,36%	-65,36%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,073,53	-0,63%	5,40%
XIIT	IDX30	556,07	-0,94%	4,72%
XIJI	JII	628,40	-1,76%	-2,98%
XISI	SMinfra18	373,44	-2,06%	8,13%
XISR	SriKehati	482,25	0,11%	9,02%
XIHD	IDXHIDIV20	656,06	-0,97%	8,45%
XIPI	Pefindo I-Grade	227,54	-0,11%	9,97%
XIIML	MSCI Indo Large Cap	293,42	0,22%	5,38%
XIID	IDX30	535,46	-1,00%	3,36%
XIFE	FTSE ESG Indonesia	115,92	-0,39%	2,13%
XIIC	Consumer Related	1,035,81	0,25%	4,13%
XIIF	Rate Sensitive	529,54	-1,04%	3,02%
XISC	BUMN Stocks	718,87	-1,48%	0,69%
XISB	Sovereign Bonds	477,10	-0,92%	3,39%

Conventional	Last	1W	YTD	
RDMP	Equity	902,68	-0,83%	5,03%
RPCF	Balanced	2,637,67	-1,00%	4,05%
RDPCDA	Balanced	987,75	-0,30%	N/A
RDPCDB	Balanced	985,27	-0,33%	N/A
RDPO 2	Fixed Income	1,086,41	0,10%	3,65%
RDPU 2	Money Market	1,430,22	0,08%	3,26%

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	23.3	53.2	12.6	10.5	0.46	14.6	4.0	1.14
2 XIIT	22.8	55.7	9.4	11.8	0.24	13.9	4.2	1.07
3 XISC	23.2	42.6	7.1	15.8	11.32	12.1	5.3	1.33
4 XISR	25.9	62.8	4.4	6.6	0.32	13.4	4.6	1.11
5 XIIF	23.0	56.5	9.5	7.6	3.38	13.3	4.7	1.29
6 XISI	43.2	25.4	16.2	14.9	0.33	11.8	5.3	1.04
7 XIPI	18.3	65.3	10.9	4.5	0.98	16.3	3.9	1.18
8 XIIC	32.0	36.4	21.0	1.6	8.99	15.0	4.0	1.18
9 XIHD	20.4	61.1	2.6	15.5	0.37	11.6	5.0	1.12
10 XIJI	35.1	15.7	21.8	27.2	0.33	12.2	3.9	1.10
11 XIML	18.3	78.8	0.0	2.5	0.37	13.5	4.7	1.11
12 XIID	22.9	55.8	9.4	11.8	0.13	15.5	4.3	1.07
13 XIFE	24.1	60.0	7.4	7.9	0.60	13.9	4.3	1.14
Index								
IDX80	32.4	41.4	13.7	12.5		12.8	4.6	
JCI	27.8	38.0	14.8	15.6		12.8	4.9	

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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