

Fed to keep rate high into 2024 amid stronger than expected US economy

Global markets reacted negatively to surprisingly hawkish forecasts released by the Fed after its meeting on Wednesday, which propelled US Treasury yields to their highest levels since 2007. The 10-yr US Treasury yield rose 10bps to 4.44% while the MSCI World and MSCI Emerging Markets stock indices fell by 2.74% and 2.11%, respectively, this week. Although the Fed left policy rate unchanged at 5.25-5.5% range during this meeting (as expected), projections released after the meeting showed that 12 out of 19 officials favor raising rate one more time this year. In addition, the outlook for rates in 2024 and 2025 was notably higher than expected, with the median projected Fed funds rates at 5.1% and 3.9%, respectively, which are 50bps higher than projections made during the previous meeting in June. The higher rate outlook was on the back of a more resilient than expected US economy, which is now forecast to grow at 2.1% and 1.5% in the last quarter of 2023 and 2024, respectively (vs. June forecasts of 1.0% and 1.1%, respectively), while the forecasts for unemployment rate are also revised significantly lower. Meanwhile, Fed's outlook for the core PCE inflation was kept nearly unchanged at 3.7% (2023) and 2.6% (2024) vs. its June forecasts of 3.9% and 2.6%, respectively. In the week ahead, markets' focus will be on the release of a broad measure of inflation preferred by Fed (core PCE Price Index), which is expected at 0.2% MoM; 3.9% YoY in August, although headline PCE inflation is forecast to accelerate to 0.5% MoM; 3.5% YoY (from 0.2% and 3.3% in July).

In Indonesia, JCI gained 0.49% amid small equity inflows (Rp0.68Tn) while bond market continued to see outflows (Rp4.38Tn). Equity sector performances were mixed with consumer, infrastructure, basic materials, and bank sectors gaining the most, while technology, consumer cyclicals, healthcare sectors corrected the most this week.

The Week Ahead – US PCE Price Index & Personal Spending, China PMIs

The key economic data to focus next week are US CB Consumer Confidence (Tue 21:00), US Durable Goods Orders (Wed 19:30), US Initial Jobless Claims (Thu 19:30), EU Inflation Rate (Fri 16:00), US PCE Price Index, Personal Income and Spending (Fri 19:30), China NBS Manufacturing & Non-Manufacturing PMIs (Sat 08:30), China Caixin Manufacturing & Services PMIs (Sun 08:45).

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	33,963.84	-1.89%	2.46%
S&P 500	4,320.06	-2.93%	12.52%
Nasdaq	13,211.81	-3.62%	26.23%
FTSE 100	7,683.91	-0.36%	3.12%
DAX	15,557.29	-2.12%	11.73%
Nikkei 225	32,402.41	-3.37%	24.17%
Hang Seng	18,057.45	-0.69%	-8.72%
Shanghai	3,132.43	0.47%	1.40%
MSCI World	2,879.85	-2.74%	10.65%
MSCI Emerging Markets	964.24	-2.11%	0.82%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	723.42	0.16%	1.71%
Consumer Cyclicals	871.47	-1.48%	2.42%
Transportation	1,841.02	0.21%	10.78%
Industrials	1,188.01	0.34%	1.16%
Technology	4,331.41	-1.70%	-16.09%
Infrastructures	929.82	1.35%	7.04%
Financials	1,398.12	0.68%	-1.19%
Consumer Non-Cyclicals	754.12	1.42%	5.24%
Healthcare	1,448.64	-0.82%	-7.43%
JCI	7,016.84	0.49%	2.43%
Energy	2,160.21	0.33%	-5.24%
Basic Materials	1,345.73	1.01%	10.66%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5.11	8 bps	69 bps
UST 10Y Yield	4.44	10 bps	56 bps
Ind GB 10Y Yield	6.74	5 bps	-20 bps
USDIDR	15,375.00	8	-193.00
CDS Indo 5Y	91.39	13.47	-5.57

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.68Tn	+10.02Tn
Government Bond Market (Rp)	-4.38Tn	+73.82Tn

Commodities	Last	1W	YTD
WTI	90.35	-0.86%	12.57%
Brent	93.38	-0.73%	8.70%
CPO (Malaysia)	3,681.00	-2.75%	-4.86%
Coal (New Castle)	158.50	-1.25%	-60.78%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,097.62	0.81%	7.77%
XIIT	IDX30	569.48	0.64%	7.24%
XIJI	JII	654.60	1.26%	1.06%
XISI	SMInfra18	386.69	-0.12%	11.96%
XISR	SriKehati	487.29	0.90%	10.16%
XIHD	IDXHIDIV20	670.58	0.97%	10.85%
XIPI	Pefindo I-Grade	232.63	1.40%	12.43%
XIIML	MSCI Indo Large Cap	297.75	0.61%	6.94%
XIID	IDX30	549.13	0.58%	6.00%
XIFE	FTSE ESG Indonesia	118.64	0.74%	4.53%
XIIC	Consumer Related	1,046.73	1.22%	5.23%
XIIF	Rate Sensitive	541.25	0.68%	5.30%
XISC	BUMN Stocks	736.01	0.14%	3.09%
XISB	Sovereign Bonds	485.76	-0.22%	5.27%

Conventional	Last	1W	YTD	
RDMP	Equity	917.83	0.69%	6.80%
RPCF	Balanced	2,674.91	0.59%	5.51%
RDPCDA	Balanced	997.49	0.57%	N/A
RDPCDB	Balanced	995.62	0.54%	N/A
RDPO 2	Fixed Income	1,084.26	-0.25%	3.45%
RDPU 2	Money Market	1,427.93	0.08%	3.10%

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

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

DISCLAIMER

© Copyright 2022 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE