

**US GDP upside surprise, flattening yield curve, rising geopolitical risk**

Global stock markets entered correction territory this week as both developed equities (MSCI World) and emerging markets (MSCI EM) fell by more than 10% since their recent peaks at the end of July. This correction was precipitated by a rapid rise in US long bond yields, which is flattening the yield curve, although it remains inverted. 10-yr US Treasury yield briefly crossed the 5% threshold for a 100bps rise since the end of July, before easing to 4.85% or 17bps below 2-yr yield. Earlier in March 2023, the 2-yr US Treasury yield had exceeded 10-yr yield by as much as 109bps, which was the deepest US yield curve inversion since the 1980s, as markets were expecting recession. However, US economy turned out more resilient than expected as it grew 4.9% annualised in Q3 2023 (Q2: 2.1%), the most since the last quarter of 2021, and well above consensus expectations of 4.3%, driven by strong consumption spending. This rapid rise in bond yields may in turn lower the need for Fed to hike rate further if US inflation continues to trend down. The probability for another rate hike before the end of 2023, as implied by Fed Funds futures pricing, is only 20%, according to CME FedWatch Tool. However, rising yields also strengthens US dollar and precipitated capital outflows from emerging markets during the past three months. Rising risks of a new Middle East conflict also contributed to negative sentiment. In the week ahead, markets' focus will likely be on Fed meeting (consensus: no rate hike) and US October jobs growth (consensus: 188,000 vs. 336,000 in September).

In Indonesia, JCI fell by 1.32% this week amid equity and bond outflows of Rp2.44Tn and Rp4.27Tn, respectively. Most equity sectors corrected except in consumer and healthcare sectors.

**The Week Ahead – Indonesia Inflation, Fed Rate Decision, US Jobs Report**

The key economic data to focus next week are China NBS Manufacturing and Services PMIs (Tue 08:30), EU GDP Growth Rate & EU Inflation Rate (Tue 17:00), Indonesia S&P Global Manufacturing PMI (Wed 07:30), Indonesia Inflation Rate (Wed 11:00), US ISM Manufacturing PMI (Wed 21:00), US Fed Rate Decision (Thu 01:00), US Initial Jobless Claims (Thu 19:30), US Factory Orders (Thu 21:00), China Caixin Services PMI (Fri 08:45), US Non Farm Payrolls & Unemployment Rate (Fri 19:30), US ISM Services 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	32,417,59	-2,14%	-2,20%
S&P 500	4,117,37	-2,53%	7,24%
Nasdaq	12,643,01	-2,62%	20,80%
FTSE 100	7,291,28	-1,50%	-2,15%
DAX	14,687,41	-0,75%	5,49%
Nikkei 225	30,991,69	-0,86%	18,77%
Hang Seng	17,398,73	1,32%	-12,05%
Shanghai	3,017,78	1,16%	-2,31%
MSCI World	2,731,99	-2,12%	4,97%
MSCI Emerging Markets	919,78	-0,63%	-3,83%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	688,97	-0,68%	-3,13%
Consumer Cyclicals	850,96	-0,30%	0,01%
Transportation	1,689,98	0,37%	1,69%
Industrials	1,121,75	-0,06%	-4,48%
Technology	3,809,94	-3,53%	-26,19%
Infrastructures	1,205,89	-0,83%	38,83%
Financials	1,356,23	-0,02%	-4,15%
Consumer Non-Cyclicals	755,40	1,37%	5,42%
Healthcare	1,504,83	1,38%	-3,84%
JCI	6,758,79	-1,32%	-1,34%
Energy	2,042,96	-1,59%	-10,38%
Basic Materials	1,214,98	-2,20%	-0,09%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5,02	-6 bps	59 bps
UST 10Y Yield	4,85	-7 bps	97 bps
Ind GB 10Y Yield	7,16	0 bps	22 bps
USDIDR	15,910,70	31,95	342,70
CDS Indo 5Y	101,32	-1,68	4,36

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2,44Tn	+3,89Tn
Government Bond Market (Rp)	-4,27Tn	+47,18Tn

Commodities	Last	1W	YTD
WTI	85,03	-3,96%	5,94%
Brent	90,27	-2,14%	5,07%
CPO (Malaysia)	3,775,00	0,11%	-2,43%
Coal (New Castle)	135,70	-0,59%	-66,42%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,016,78	-2,04%	-0,17%
XIIT	IDX30	524,94	-2,33%	-1,15%
XIJI	JII	601,33	-1,83%	-7,16%
XISI	SMIInfra18	357,79	-2,82%	3,60%
XISR	SriKehati	459,62	-2,14%	3,91%
XIHD	IDXHIDIV20	630,69	-2,14%	4,26%
XIPI	Pefindo I-Grade	216,00	-2,26%	4,39%
XIIML	MSCI Indo Large Cap	277,02	-2,27%	-0,51%
XIID	IDX30	504,72	-2,38%	-2,57%
XIFE	FTSE ESG Indonesia	109,68	-2,24%	-3,36%
XIIC	Consumer Related	999,77	-0,93%	0,51%
XIIF	Rate Sensitive	507,00	-1,87%	-1,36%
XISC	BUMN Stocks	694,45	-2,17%	-2,73%
XISB	Sovereign Bonds	476,79	0,67%	3,32%

Conventional	Last	1W	YTD	
RDMP	Equity	858,74	-2,11%	-0,08%
RPCF	Balanced	2,566,13	-1,49%	1,22%
RDPCDA	Balanced	955,76	-1,56%	N/A
RDPCDB	Balanced	952,39	-1,60%	N/A
RDPO 2	Fixed Income	1,085,88	0,09%	3,60%
RDPU 2	Money Market	1,433,69	0,08%	3,51%

**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
<b>Index</b>								
IDX80	32.4	41.4	13.7	12.5		12.8	4.6	
JCI	27.8	38.0	14.8	15.6		12.8	4.6	

**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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