

Bond yields extend recent climb amid US government shutdown anxiety

Global markets declined for the second month in a row, reversing the uptrend in the prior two months, as US bond yields push even higher amid the prospect of a potential US government shutdown this week end. 10-yr US Treasury yields peaked at 4.63% on Wednesday, a 16-year high, and rose 14bps for the week. This follows 10bps rise in the prior week, driven by Fed's hawkish rate forecasts. Rising oil prices and likelihood of a US government shutdown have weighed on investor sentiment. However, US Congress managed to pass a stopgap funding bill on Saturday, just in time to avert a shutdown. US economic data still paint a picture of a resilient economy as durable goods orders surprised on the upside with a 0.2% MoM rise in August, after a 5.6% drop in July, ahead of consensus expectation (-0.5%). Meanwhile, US inflation moderation continues as Core PCE Price Index, a broad inflation measure preferred by the Fed, rose 0.1% MoM (+3.9% YoY) in August vs. 0.2% and 4.3%, respectively, in July, albeit still within expectations. The headline PCE Price Index rose 0.4% MoM (+3.5% YoY) on the back of higher oil prices but was also in line with expectations. Elsewhere in EU, core inflation also moderated to 4.5% YoY in September (August: 5.3%), lower than consensus expectation of 4.8%. In the week ahead, markets attention will be on US jobs report (nonfarm payrolls) and the economy is expected to add 163,000 jobs in September, lower than 187,000 jobs recorded in August.

In Indonesia, JCI fell 1.1% amid a small equity outflows of Rp0.71Tn this week, while the local bond market continued to see significant outflows of Rp6.81Tn, which pushed 10-yr yields higher to 6.91% (+17bps). Most of the equity sectors corrected, particularly basic materials, infrastructure, energy, healthcare sectors, while consumer and banking sectors were among the most resilient this week.

The Week Ahead – Indonesia Inflation, Fed Speeches, US Jobs Report

The key economic data to focus next week are Indonesia S&P Global Manufact. PMI (Mon 07:30), Indonesia Inflation Rate (Mon 11:00), US ISM Manufact. PMI (Mon 21:00), Fed Chair Powell Speech (Mon 22:00), EU Retail Sales & PPI (Wed 16:00), US ISM Services PMI & Factory Orders (Wed 21:00), US Initial Jobless Claims (Thu 19:30), US Non Farm Payrolls & Unemployment Rate (Fri 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 XIML (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	33,507.50	-1.34%	1.09%
S&P 500	4,288.05	-0.74%	11.68%
Nasdaq	13,219.32	0.06%	26.30%
FTSE 100	7,608.08	-0.99%	2.10%
DAX	15,386.58	-1.10%	10.51%
Nikkei 225	31,857.62	-1.68%	22.09%
Hang Seng	17,809.66	-1.37%	-9.97%
Shanghai	3,110.89	-0.69%	0.70%
MSCI World	2,853.24	-0.92%	9.63%
MSCI Emerging Markets	952.78	-1.19%	-0.38%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	721.20	-0.31%	1.40%
Consumer Cyclical	866.74	-0.54%	1.86%
Transportation	1,852.32	0.61%	11.46%
Industrials	1,186.15	-0.16%	1.01%
Technology	4,335.42	0.09%	-16.01%
Infrastructures	909.22	-2.22%	4.67%
Financials	1,400.85	0.20%	-0.99%
Consumer Non-Cyclical	760.71	0.87%	6.16%
Healthcare	1,429.95	-1.29%	-8.63%
JCI	6,939.89	-1.10%	1.30%
Energy	2,131.67	-1.32%	-6.49%
Basic Materials	1,302.97	-3.18%	7.14%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5.05	-6 bps	63 bps
UST 10Y Yield	4.58	14 bps	70 bps
Ind GB 10Y Yield	6.91	17 bps	-3 bps
USDIDR	15,450.00	75	-118.00
CDS Indo 5Y	93.50	2.11	-3.46

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0.71Tn	+9.31Tn
Government Bond Market (Rp)	-6.81Tn	+67.01Tn

Commodities	Last	1W	YTD
WTI	90.74	0.43%	13.05%
Brent	92.29	-1.16%	7.43%
CPO (Malaysia)	3,767.00	2.34%	-2.64%
Coal (New Castle)	159.75	0.79%	-60.47%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,080.34	-1.57%	6.07%
XIIT	IDX30	561.36	-1.43%	5.71%
XIJI	JII	639.67	-2.28%	-1.24%
XISI	SMinfra18	381.28	-1.40%	10.40%
XISR	SriKehati	481.72	-1.14%	8.90%
XIHD	IDXHIDIV20	662.50	-1.21%	9.51%
XIPI	Pefindo I-Grade	227.80	-2.08%	10.09%
XIML	MSCI Indo Large Cap	292.78	-1.67%	5.15%
XIID	IDX30	540.86	-1.51%	4.41%
XIFE	FTSE ESG Indonesia	116.37	-1.91%	2.53%
XIIC	Consumer Related	1,033.28	-1.28%	3.87%
XIIF	Rate Sensitive	535.13	-1.13%	4.11%
XISC	BUMN Stocks	729.65	-0.87%	2.20%
XISB	Sovereign Bonds	481.52	-0.87%	4.35%

Conventional		Last	1W	YTD
RDMP	Equity	910.21	-0.83%	5.91%
RPCF	Balanced	2,664.21	-0.40%	5.09%
RDPCDA	Balanced	990.68	-0.68%	N/A
RDPCDB	Balanced	988.52	-0.71%	N/A
RDPO 2	Fixed Income	1,085.35	0.10%	3.55%
RDPDPU 2	Money Market	1,429.04	0.08%	3.18%

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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