

Fed's inflation warning amid resilient economy pushes 10-yr yield to 5%

Global stock indices fell by more than 2% this week, resuming their downward trajectory during August to September amid an upward shift in US long-term rate expectations. 10-yr US Treasury yield climbed to 5% on Thursday, reaching its highest level since 2017, following Fed Chair Jerome Powell's remark stating that he saw no signs the current Fed policy stance would push the US economy into a recession. Although Powell signaled that Fed could keep its interest rate unchanged at the next policy meeting on November 1, he warned that inflation is still too high and more rate hikes are still possible if economic data continues to come in stronger than expected. Powell's remark was in contrast to a dovish tone from minutes of Fed's September meeting released last week that stated there is less need to raise rate now because higher bond yields have tightened financial condition. Meanwhile, this week's US economic data shows that retail sales grew 0.7% MoM (+3.8% YoY) in September, only slightly lower than in the upwardly revised August growth 0.8%, but it beat consensus forecast of a 0.3% growth. Weekly jobless claims were also better than expected, falling to below 200,000 for the first time since January. Aside from this, escalating geopolitical concerns in the Middle East also seemed to weigh on sentiment. In the week ahead, market's focus will likely be on the release of US Q3 GDP growth rate, with consensus expectation of 4.2% annualised QoQ growth vs. 2.1% in Q2.

In Indonesia, JCI fell by 1.12% this week amid the resumption of equity outflows (Rp2.49Tn) while bond market outflows of the past few months were sustained (Rp4.01Tn). In turn, this pushed 10-yr IDR yields to 7.16% (+38bps) amid BI's unexpected decision to hike policy rate by 25bps to 6.0%. Most equity sectors corrected except in infrastructure, healthcare and energy sectors.

The Week Ahead – ECB Rate Decision, US GDP Growth, US PCE Price Index

The key economic data to focus next week are US S&P Global Composite PMI (Tue 20:45), ECB Interest Rate Decision (Thu 19:15), US Durable Goods Orders (Thu 19:30), US Jobless Claims (Thu 19:30), US GDP Growth Rate (Thu 19:30), US PCE Price Index (Fri 19:30), US Personal Income & Spending Growth (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 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	33,127,28	-1,61%	-0,06%
S&P 500	4,224,16	-2,39%	10,02%
Nasdaq	12,983,81	-3,16%	24,05%
FTSE 100	7,402,14	-2,60%	-0,67%
DAX	14,798,47	-2,56%	6,28%
Nikkei 225	31,259,36	-3,27%	19,79%
Hang Seng	17,172,13	-3,60%	-13,19%
Shanghai	2,983,06	-3,40%	-3,44%
MSCI World	2,791,24	-2,48%	7,24%
MSCI Emerging Markets	925,58	-2,70%	-3,22%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	693,70	-3,58%	-2,47%
Consumer Cyclical	853,51	-2,98%	0,31%
Transportation	1,683,76	-5,53%	1,31%
Industrials	1,122,38	-2,05%	-4,42%
Technology	3,949,22	-3,73%	-23,49%
Infrastructures	1,215,98	13,49%	39,99%
Financials	1,356,52	-2,22%	-4,13%
Consumer Non-Cyclicals	745,20	-0,68%	4,00%
Healthcare	1,484,38	2,91%	-5,15%
JCI	6,849,17	-1,12%	-0,02%
Energy	2,076,00	0,43%	-8,93%
Basic Materials	1,242,30	-1,18%	2,15%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5,07	1 bps	65 bps
UST 10Y Yield	4,91	30 bps	104 bps
Ind GB 10Y Yield	7,16	38 bps	22 bps
USDIDR	15,878,75	175,75	310,75
CDS Indo 5Y	103,00	7,14	6,04

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2,49Tn	+6,57Tn
Government Bond Market (Rp)	-4,01Tn	+50,51Tn

Commodities	Last	1W	YTD
WTI	88,53	0,74%	10,30%
Brent	92,24	1,25%	7,37%
CPO (Malaysia)	3,771,00	0,91%	-2,53%
Coal (New Castle)	136,50	-4,31%	-66,23%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,037,91	-2,91%	1,91%
XIIT	IDX30	537,47	-2,96%	1,21%
XIJI	JII	612,55	-1,77%	-5,43%
XISI	SMIInfra18	368,16	-3,43%	6,60%
XISR	SriKehati	469,69	-3,05%	6,18%
XIHD	IDXHIDIV20	644,46	-2,68%	6,53%
XIPI	Pefindo I-Grade	221,00	-3,66%	6,80%
XIIML	MSCI Indo Large Cap	283,45	-3,37%	1,80%
XIID	IDX30	517,02	-2,99%	-0,20%
XIFE	FTSE ESG Indonesia	112,20	-3,08%	-1,15%
XIIC	Consumer Related	1,009,15	-2,27%	1,45%
XIIF	Rate Sensitive	516,66	-3,04%	0,52%
XISC	BUMN Stocks	709,85	-2,65%	-0,57%
XISB	Sovereign Bonds	473,64	-2,02%	2,64%

Conventional	Last	1W	YTD	
RDMP	Equity	877,21	-2,77%	2,07%
RPCF	Balanced	2,604,95	-1,90%	2,75%
RDPCDA	Balanced	970,94	-2,15%	N/A
RDPCDB	Balanced	967,84	-2,18%	N/A
RDPO 2	Fixed Income	1,084,86	-0,25%	3,50%
RDPU 2	Money Market	1,432,59	0,09%	3,43%

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 XIIML	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	4.6	

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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