

**Still healthy US economy and labor data led to return of inflation worries**

Global stock markets retreated, reversing uptrend of the past two weeks, as this week's economic data reveals a still healthy US economy and its labor market, reversing signs of softening in the prior two weeks. While economic calendar was relatively light, US ISM Services PMI data jumped to 54.5 in August (vs. 52.7 in July), above expectations, and points to the strongest growth in US services sector activity in six months. Similarly, US ISM Services Employment for August was at its highest level since November 2021, while initial jobless claims fell to 216,000, below market expectations of 234,000, marking its lowest level since February. This data points to an ongoing growth in US economy with potential negative implications for inflation and interest rates. The 10% rise in oil prices in the past two weeks amid renewed oil supply concerns further add to the return of inflation worries, which was evident from this week's rise in US bond yields, which reversed the prior week's declines. Elsewhere in Europe, EU economic growth for the second quarter was revised down to 0.1%, from initial estimate of 0.3%, while retail sales fell 0.2% sequentially in July or a decline of 1.0% YoY. In China, economic indicators such as Caixin Services PMI fell to 51.8 in August (July: 54.1), its slowest expansion since December which was broadly in line with trend of China's Manufacturing PMI released in the prior week, thus reinforcing concerns over the country's weakening outlook. In the week ahead, investors' focus will be on US inflation rates for August with consensus forecasts of 0.2% MoM (4.3% YoY) rises in core CPI and 0.2% MoM (2.4% YoY) rises in core PPI.

In Indonesia, JCI fell 0.76% amid slight fund outflows from equity market this week of Rp847Bn while bond market flows reversed into inflows of Rp2.88Tn by foreign investors. Most equity sectors corrected except for the basic materials, energy/coal mining and infrastructure sectors while the property and consumer sectors corrected the most this week.

**The Week Ahead – US CPI & PPI Inflation Rate, US Retail Sales**

The key economic data to focus next week are US CPI Inflation (Wed 19:30), US PPI Inflation (Thu 19:30), US Retail Sales and Initial Jobless Claims (Thu 19:30), China Industrial Production and Retail Sales (Fri 09:00), US Industrial Production (Fri 20:15), 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	34,576.59	-0.75%	4.31%
S&P 500	4,457.49	-1.29%	16.10%
Nasdaq	13,761.53	-1.93%	31.48%
FTSE 100	7,478.19	0.18%	0.35%
DAX	15,740.30	-0.63%	13.05%
Nikkei 225	32,606.80	-0.32%	24.96%
Hang Seng	18,202.07	-0.98%	-7.98%
Shanghai	3,116.72	-0.53%	0.89%
MSCI World	2,948.81	-1.36%	13.30%
MSCI Emerging Markets	973.86	-1.20%	1.83%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	731.54	-2.62%	2.85%
Consumer Cyclical	893.99	-1.01%	5.06%
Transportation	1,829.26	2.40%	10.07%
Industrials	1,179.93	-0.12%	0.48%
Technology	4,439.24	-0.17%	-14.00%
Infrastructures	915.97	1.12%	5.45%
Financials	1,394.60	-1.53%	-1.44%
Consumer Non-Cyclical	735.36	-2.31%	2.62%
Healthcare	1,471.82	-0.32%	-5.95%
JCI	6,924.78	-0.76%	1.08%
Energy	2,112.97	2.26%	-7.31%
Basic Materials	1,256.75	2.68%	3.34%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.99	11 bps	56 bps
UST 10Y Yield	4.26	8 bps	39 bps
Ind GB 10Y Yield	6.56	17 bps	-38 bps
USDIDR	15,381.70	141.7	-186.30
CDS Indo 5Y	81.30	-0.37	-15.66

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-847.81Bn	+11.99Tn
Government Bond Market (Rp)	+2.88Tn	+86.49Tn

Commodities	Last	1W	YTD
WTI	87.30	2.04%	8.77%
Brent	90.28	1.95%	5.09%
CPO (Malaysia)	3,830.00	-5.20%	-1.01%
Coal (New Castle)	157.65	0.90%	-60.99%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,078.04	-1.55%	5.85%
XIIT	IDX30	562.37	-1.49%	5.90%
XIUI	JII	631.29	-0.75%	-2.54%
XISI	SMInfra18	382.00	-0.03%	10.61%
XISR	SriKehati	483.24	-1.47%	9.25%
XIHD	IDXHIDIV20	665.36	-0.96%	9.99%
XIPI	Pefindo I-Grade	225.55	-2.04%	9.00%
XIIML	MSCI Indo Large Cap	297.13	-2.00%	6.71%
XIID	IDX30	542.88	-1.55%	4.80%
XIFE	FTSE ESG Indonesia	117.76	-1.69%	3.76%
XIIC	Consumer Related	1,031.30	-2.30%	3.68%
XIIF	Rate Sensitive	537.43	-1.25%	4.56%
XISC	BUMN Stocks	738.52	-0.36%	3.44%
XISB	Sovereign Bonds	492.39	-0.97%	6.71%

Conventional	Last	1W	YTD	
RDMP	Equity	908.37	-0.80%	5.70%
RPCF	Balanced	2,658.17	-0.60%	4.85%
RDPCDA	Balanced	992.01	-0.90%	N/A
RDPCDB	Balanced	990.83	-0.93%	N/A
RDPO 2	Fixed Income	1,085.96	0.09%	3.61%
RDPU 2	Money Market	1,425.63	0.08%	2.93%

**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. Cyclicals	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	45.9	

**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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