

Fed Chair Powell stated monetary policy isn't sufficiently restrictive

Global stock markets rebound continued for the second week albeit at a slower pace and was largely helped by economic data release showing weakening US consumer sentiment on Friday. Excluding Friday's gains, US stock indices were mostly flat during the week amid comments made by Fed Chair Jerome Powell during a gathering of the International Monetary Fund that policymakers were not confident monetary policy stance is sufficiently restrictive to bring inflation down to 2% over time. Powell's remark led to a 22bps rise in 2-yr US Treasury yield to 5.07% while 10-yr yield rose modestly by 7bps to 4.65%. However, Fed Funds futures pricing data still implies market expectations for Fed to hold rate steady during its upcoming meeting next month although the probability of a rate hike rose to 9.1% (prior week: 4.8%), according to CME FedWatch Tool. There were few economic data releases this week and most were as expected except the University of Michigan's release of its consumer sentiment survey on Friday. The survey shows consumer sentiment is weakening further to its lowest level in six months amid high interest rates and the ongoing wars in Gaza and Ukraine. Meanwhile, oil prices fell for the third consecutive week to the lowest level since mid-July due to concerns about global economic growth and oil demand. In the week ahead, market's attention will likely focus on the release of US inflation data for October, particularly core inflation rate (consensus: 0.3% MoM; 4.1% YoY, same as the results for the prior month).

In Indonesia, JCI gained 0.30% this week amid continuing equity outflows of Rp0.71Tn while foreign inflows continued to return to bond market (Rp8.58Tn). Infrastructure and technology stocks led the market rebound while most other sectors corrected, particularly consumer cyclicals and industrials stocks.

The Week Ahead – Indonesia Trade Balance, US CPI & PPI Inflation Rates

The key economic data to focus next week includes US CPI Inflation Rate (Tue 20:30), China Industrial Production & Retail Sales (Wed 09:00), Indonesia Trade Balance (Wed 11:00), US PPI Inflation & Retail Sales (Wed 20:30), US Initial Jobless Claims (Thu 20:30), US Industrial Production (Thu 21:15).

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	34,283,10	0,65%	3,43%
S&P 500	4,415,24	1,31%	15,00%
Nasdaq	13,798,11	2,37%	31,83%
FTSE 100	7,360,55	-0,77%	-1,22%
DAX	15,235,65	0,31%	9,42%
Nikkei 225	32,568,11	1,93%	24,81%
Hang Seng	17,203,26	-2,61%	-13,03%
Shanghai	3,038,97	0,27%	-1,63%
MSCI World	2,900,76	0,59%	11,45%
MSCI Emerging Markets	948,32	0,01%	-0,84%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	701,18	-0,12%	-1,42%
Consumer Cyclicals	791,94	-1,72%	-6,93%
Transportation	1,660,66	0,82%	-0,08%
Industrials	1,100,99	-1,36%	-6,25%
Technology	4,120,10	2,46%	-20,18%
Infrastructures	1,331,49	9,00%	53,28%
Financials	1,367,98	-0,48%	-3,32%
Consumer Non-Cyclicals	740,72	0,03%	3,37%
Healthcare	1,359,47	-1,00%	-13,13%
JCI	6,809,26	0,30%	-0,60%
Energy	1,958,12	-0,93%	-14,10%
Basic Materials	1,192,88	-0,94%	-1,91%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5,07	22 bps	64 bps
UST 10Y Yield	4,65	7 bps	77 bps
Ind GB 10Y Yield	6,77	-11 bps	-17 bps
USDIDR	15,694,05	104,95	126,05
CDS Indo 5Y	85,15	-1,08	-11,81

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-0,71Tn	+1,52Tn
Government Bond Market (Rp)	+8,58Tn	+58,20Tn

Commodities	Last	1W	YTD
WTI	77,49	-3,75%	-3,45%
Brent	81,59	-4,20%	-5,03%
CPO (Malaysia)	3,802,00	0,90%	-1,73%
Coal (New Castle)	123,00	4,24%	-69,57%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,024,10	-0,35%	0,55%
XIIT	IDX30	530,37	-0,39%	-0,12%
XIJI	JII	587,54	-0,75%	-9,29%
XISI	SMinfra18	354,51	-1,21%	2,65%
XISR	SriKehati	458,47	-0,85%	3,65%
XIHD	IDXHIDIV20	628,27	-0,90%	3,86%
XIPI	Pefindo I-Grade	218,38	-0,56%	5,54%
XIIML	MSCI Indo Large Cap	281,21	-0,59%	1,00%
XIID	IDX30	509,67	-0,42%	-1,61%
XIFE	FTSE ESG Indonesia	110,85	-0,40%	-2,33%
XIIC	Consumer Related	991,73	-0,16%	-0,30%
XIIF	Rate Sensitive	505,23	-0,65%	-1,71%
XISC	BUMN Stocks	684,50	-0,68%	-4,12%
XISB	Sovereign Bonds	482,78	-0,20%	4,62%

Conventional	Last	1W	YTD	
RDMP	Equity	853,12	-0,69%	-0,73%
RPCF	Balanced	2,559,24	-0,67%	0,95%
RDPCDA	Balanced	954,58	-0,49%	N/A
RDPCDB	Balanced	950,57	-0,53%	N/A
RDPO 2	Fixed Income	1,087,76	0,10%	3,78%
RDPU 2	Money Market	1,435,85	0,08%	3,67%

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	4.6	

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

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

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