

Yield reversal amid slowing US jobs growth, stock volatility index dropped

Global stock markets rebounded as US bond yields reversed uptrend and 10-yr US Treasury yields eased 27bps to 4.58% this week. The yield reversal brought 10-yr bond yields down to levels at end of September, which are still elevated in comparison to sub-4% yield at the end of July, when global stocks reached recent highs. US stocks led the global market rebound with S&P500 index rising 5.85% this week although this is still 5% below recent high in July. The shift in US long-term interest rate outlook was driven by signs of slowing economy and a dovish Fed statement post meeting on Wednesday. Although Fed's decision to hold rate steady is widely expected, markets appeared encouraged by Fed's signal that the rise in yields had achieved the intended tightening in financial conditions. Meanwhile, Friday's US payroll report seemed to confirm the labor market is cooling down as jobs growth slowed to 150,000 in October, from 297,000 in prior month, which was well below consensus expectation (180,000). Average hourly wage rose 0.2% MoM and its annual growth slowed to 4.1%, its lowest level in more than two years, but which is still above the 3% level that is expected to support Fed's inflation target of 2%. As such, market expectations for the Fed to hold rate steady during its last meeting in December has firmed up as the probability of a rate hike declined to 4.8% (from 20% a week ago), according to CME FedWatch Tool. Meanwhile, an index that measures expected short-term US stock market volatility has also dropped sharply to lowest level in over a month. Elsewhere, EU's inflation slowed more than expected to 2.9%, its lowest level since July 2021, with the core inflation rate also easing to 4.2%.

In Indonesia, JCI was up by 0.44% this week amid continuing equity outflows of Rp1.67Tn while inflows returned to bond market (Rp6.25Tn). Technology stocks led the market gain, followed by property, financials and infrastructure sectors, while healthcare, consumer cyclicals and coal mining stocks corrected the most in line with the declines in crude oil and coal benchmark prices.

The Week Ahead – Indonesia GDP Growth Rate, Fed Chair Powell Speech

The key economic data to focus next week includes Indonesia GDP Growth Rate (Mon 11:00), Fed Chair Powell Speech (Wed 21:15), US Initial Jobless Claims (Thu 20:30), US Michigan Consumer Sentiment Survey (Fri 20:00).

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	34,061,32	5,07%	2,76%
S&P 500	4,358,34	5,85%	13,51%
Nasdaq	13,478,28	6,61%	28,78%
FTSE 100	7,417,73	1,73%	-0,46%
DAX	15,189,30	3,42%	9,09%
Nikkei 225	31,949,90	3,09%	22,44%
Hang Seng	17,664,12	1,53%	-10,70%
Shanghai	3,030,80	0,43%	-1,89%
MSCI World	2,883,80	5,56%	10,80%
MSCI Emerging Markets	948,26	3,10%	-0,85%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	702,04	1,90%	-1,29%
Consumer Cyclicals	805,79	-5,31%	-5,30%
Transportation	1,647,11	-2,54%	-0,89%
Industrials	1,116,23	-0,49%	-4,95%
Technology	4,021,20	5,54%	-22,10%
Infrastructures	1,221,59	1,30%	40,63%
Financials	1,374,60	1,35%	-2,85%
Consumer Non-Cyclicals	740,47	-1,98%	3,34%
Healthcare	1,373,15	-8,75%	-12,26%
JCI	6,788,85	0,44%	-0,90%
Energy	1,976,45	-3,26%	-13,30%
Basic Materials	1,204,26	-0,88%	-0,98%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4,85	-17 bps	42 bps
UST 10Y Yield	4,58	-27 bps	70 bps
Ind GB 10Y Yield	6,88	-28 bps	-6 bps
USDIDR	15,589,10	-321,60	21,10
CDS Indo 5Y	86,23	-15,09	-10,73

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1,67Tn	+1,78Tn
Government Bond Market (Rp)	+6,25Tn	+53,43Tn

Commodities	Last	1W	YTD
WTI	80,51	-5,31%	0,31%
Brent	85,17	-5,65%	-0,86%
CPO (Malaysia)	3,768,00	-0,19%	-2,61%
Coal (New Castle)	118,00	-13,04%	-70,80%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,027,70	1,07%	0,90%
XIIT	IDX30	532,47	1,44%	0,27%
XIJI	JII	591,97	-1,56%	-8,61%
XISI	SMinfra18	358,87	0,30%	3,91%
XISR	SriKehati	462,41	0,61%	4,54%
XIHD	IDXHIDIV20	634,01	0,53%	4,80%
XIPI	Pefindo I-Grade	219,62	1,68%	6,14%
XIIML	MSCI Indo Large Cap	282,87	2,11%	1,60%
XIID	IDX30	511,83	1,41%	-1,20%
XIFE	FTSE ESG Indonesia	111,30	1,47%	-1,94%
XIIC	Consumer Related	993,31	-0,65%	-0,14%
XIIF	Rate Sensitive	508,51	0,30%	-1,07%
XISC	BUMN Stocks	689,21	-0,75%	-3,46%
XISB	Sovereign Bonds	483,75	1,46%	4,83%

Conventional	Last	1W	YTD	
RDMP	Equity	859,04	0,03%	-0,04%
RPCF	Balanced	2,576,51	0,40%	1,63%
RDPCDA	Balanced	959,29	0,37%	N/A
RDPCDB	Balanced	955,59	0,34%	N/A
RDPO 2	Fixed Income	1,086,64	0,07%	3,67%
RDPU 2	Money Market	1,434,69	0,07%	3,59%

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

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