

**US inflation slowed more than expected, 10-yr US bond yield fell 21bps**

Global stock indices climbed for the third week in a row, rising on average by 3% for both developed and emerging markets equities, driven by a cooler than expected US inflation rate. Headline consumer prices in the US were unchanged in October, after rising 0.4% MoM in September, for an annual rise of 3.2% YoY vs. 3.7% in the prior month, due to lower energy costs. Excluding fuel & food, core inflation rate slowed to 0.2% MoM (4.0% YoY) in October, from 0.3% MoM and 4.1% YoY, in the prior month. These were the slowest US inflation rates in more than two years, thus sparking US stock market rally in an otherwise quiet trading week when inflation data was released on Tuesday. In turn, this drove 10-yr US Treasury yield down to 4.44% (-21bps) as the lower-than-expected inflation triggered a shift in the interest rate outlook. Aside from this, US core producer prices and retail sales growth also slowed to 2.4% and 2.5% YoY in October, from 2.7% and 4.0% YoY, respectively, in the prior month. Elsewhere in China, the country's industrial production and retail sales grew by 4.6% and 7.6% YoY respectively in October, ahead of market expectations, thus helped offset negative sentiment from slower than expected recovery post economic reopenings in December 2022. In the week ahead, market's attention will likely focus on the release of minutes from Fed's meeting on 1<sup>st</sup> November, while in Indonesia, investor's focus will be on the current account data and BI's meeting, which is expected to hold policy rate steady at 6.0%.

In Indonesia, JCI gained 2.47% this week amid small equity inflows of Rp0.62Tn, a reversal from prior weeks' outflows, while foreign inflows in the bond market reversed to an outflow of Rp2.60Tn. Infrastructure, technology, basic materials, financials and consumer cyclicals sectors gained the most while consumer and industrials stocks corrected.

**The Week Ahead – FOMC Minutes, Indonesia Current Account, BI Meeting**

The key economic data to focus next week includes Indonesia Current Account Balance (Tue 10:00), US FOMC Minutes (Wed 02:00), US Durable Goods Orders, and Initial Jobless Claims (Wed 20:30), BI Interest Rate Decision (Thu 14:30), US S&P Global Manufacturing & Services PMIs (Fri 21:45).

**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	34,947.28	1.94%	5.43%
S&P 500	4,514.02	2.24%	17.57%
Nasdaq	14,125.48	2.37%	34.96%
FTSE 100	7,504.25	1.95%	0.70%
DAX	15,919.16	4.49%	14.33%
Nikkei 225	33,573.40	3.09%	28.66%
Hang Seng	17,454.19	1.46%	-11.76%
Shanghai	3,054.37	0.51%	-1.13%
MSCI World	2,985.19	2.91%	14.70%
MSCI Emerging Markets	976.52	2.97%	2.11%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	712.58	1.63%	0.19%
Consumer Cyclicals	808.60	2.10%	-4.97%
Transportation	1,683.34	1.37%	1.29%
Industrials	1,099.78	-0.11%	-6.35%
Technology	4,232.98	2.74%	-18.00%
Infrastructures	1,456.87	9.42%	67.72%
Financials	1,398.13	2.20%	-1.19%
Consumer Non-Cyclicals	737.17	-0.48%	2.88%
Healthcare	1,373.28	1.02%	-12.25%
JCI	6,977.67	2.47%	1.85%
Energy	1,973.51	0.79%	-13.43%
Basic Materials	1,224.89	2.68%	0.72%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.89	-18 bps	47 bps
UST 10Y Yield	4.44	-21 bps	56 bps
Ind GB 10Y Yield	6.64	-13 bps	-30 bps
USDIDR	15,424.30	-269.75	-143.70
CDS Indo 5Y	77.55	-7.60	-19.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.62Tn	+1.52Tn
Government Bond Market (Rp)	-2.60Tn	+55.60Tn

Commodities	Last	1W	YTD
WTI	75.70	-2.31%	-5.69%
Brent	80.56	-1.26%	-6.23%
CPO (Malaysia)	3,931.00	3.39%	1.60%
Coal (New Castle)	123.10	0.08%	-69.54%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,041.64	1.71%	2.27%
XIIT	IDX30	540.29	1.87%	1.75%
XIJI	JII	588.65	0.19%	-9.12%
XISI	SMinfra18	359.17	1.32%	4.00%
XISR	SriKehati	465.08	1.44%	5.14%
XIHD	IDXHDIV20	636.72	1.34%	5.25%
XIPI	Pefindo I-Grade	222.72	1.99%	7.64%
XIIML	MSCI Indo Large Cap	286.93	2.04%	3.05%
XIID	IDX30	519.07	1.84%	0.20%
XIFE	FTSE ESG Indonesia	113.07	2.01%	-0.38%
XIIC	Consumer Related	999.70	0.80%	0.50%
XIIF	Rate Sensitive	514.79	1.89%	0.15%
XISC	BUMN Stocks	702.55	2.64%	-1.60%
XISB	Sovereign Bonds	490.52	1.60%	6.30%

Conventional				
RDMP	Equity	866.99	1.63%	0.88%
RPCF	Balanced	2,584.26	0.98%	1.94%
RDPCDA	Balanced	965.96	1.19%	N/A
RDPCDB	Balanced	961.57	1.16%	N/A
RDPO 2	Fixed Income	1,088.97	0.11%	3.90%
RDPU 2	Money Market	1,437.03	0.08%	3.75%

**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
<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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