

Fed and ECB signals for rates to remain steady for some time

Global stock indices climbed for the fourth week in a row, albeit more modestly this week, amid Fed's signal for rates to remain steady and quiet markets ahead of US Thanksgiving holiday. Earlier on Tuesday, minutes of prior FOMC meeting on Oct 21 to Nov 1 was released and it revealed all participants agreed it would be appropriate for monetary policy stance to remain restrictive for some time until inflation is clearly moving down sustainably toward the Fed's 2% target. Meanwhile, data on US durable goods order fell 5.4% MoM in October, more than the 3.1% drop expected, but if transportation goods were excluded, it was unchanged and just slightly below consensus expectation of a 0.1% increase. Data released by S&P Global also indicated a more than expected slowdown in manufacturing activity in November although this was offset by stronger than expected pickup in services activity. Elsewhere in Europe, ECB policymakers also indicated the fight to curb inflation was not over with ECB President Lagarde stating that rates could be steady over the next couple of quarters. In the bond market, 10-yr US Treasury yield was stable throughout this week but yield rose towards the weekend and it closed 3bps higher at 4.47%. Next week, markets attention will likely focus on Wednesday's release of a 2nd estimate of the third-quarter US GDP growth, which grew stronger than expected at an annual rate of 4.9% when it was initially released in late October.

In Indonesia, JCI was up by 0.46% this week amid marginal equity inflows while the bond market reported significant inflows of Rp6.9Tn. Technology sector led the gainers, followed by financials and consumer cyclicals, while basic materials, infrastructures and healthcare stocks corrected the most this week.

The Week Ahead – Fed Speeches, US GDP Growth 2nd est., PCE Price Index

The key economic data to focus next week are ECB President Lagarde Speech (Mon 21:00), US CB Consumer Confidence (Tue 20:00), US GDP Growth 2nd Est. (Wed 20:30), China NBS Manufacturing & Non-Manufacturing PMIs (Thu 08:30), EU Inflation Rate (Thu 17:00), US PCE Price Index, Personal Income & Spending & Initial Jobless Claims (Thu 20:30), Indonesia S&P Global Manufacturing PMI (Fri 07:30), Indonesia Inflation (11:00), US ISM Manufacturing PMI (Fri 22:00), Fed Chair Powell Speech (Fri 23:00).

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 mid 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	35,390.15	1.27%	6.77%
S&P 500	4,559.34	1.00%	18.75%
Nasdaq	14,250.86	0.89%	36.16%
FTSE 100	7,488.20	-0.21%	0.49%
DAX	16,029.49	0.69%	15.12%
Nikkei 225	33,625.53	0.16%	28.86%
Hang Seng	17,559.42	0.60%	-11.23%
Shanghai	3,040.97	-0.44%	-1.56%
MSCI World	3,015.19	1.00%	15.85%
MSCI Emerging Markets	980.33	0.39%	2.50%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	712.73	0.02%	0.21%
Consumer Cyclicals	828.26	2.43%	-2.66%
Transportation	1,689.53	0.37%	1.66%
Industrials	1,093.37	-0.58%	-6.90%
Technology	4,892.73	15.59%	-5.22%
Infrastructures	1,419.32	-2.58%	63.40%
Financials	1,435.46	2.67%	1.45%
Consumer Non-Cyclicals	732.46	-0.64%	2.22%
Healthcare	1,343.55	-2.16%	-14.15%
JCI	7,009.63	0.46%	2.32%
Energy	1,970.52	-0.15%	-13.56%
Basic Materials	1,178.02	-3.83%	-3.13%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	4.96	6 bps	53 bps
UST 10Y Yield	4.47	3 bps	60 bps
Ind GB 10Y Yield	6.67	4 bps	-27 bps
USDIDR	15,532.60	108.30	-35.40
CDS Indo 5Y	74.73	-2.82	-22.23

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+0.08Tn	+1.42Tn
Government Bond Market (Rp)	+6.90Tn	+62.50Tn

Commodities	Last	1W	YTD
WTI	75.16	-0.72%	-6.36%
Brent	80.29	-0.34%	-6.55%
CPO (Malaysia)	3,890.00	-1.04%	0.54%
Coal (New Castle)	122.15	-0.77%	-69.78%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,048.59	0.67%	2.96%
XIIT	IDX30	544.35	0.75%	2.51%
XIJI	JII	582.58	-1.03%	-10.05%
XISI	SMinfra18	360.38	0.34%	4.35%
XISR	SriKehati	467.62	0.55%	5.72%
XIHD	IDXHIDIV20	642.18	0.86%	6.16%
XIPI	Pefindo I-Grade	223.02	0.13%	7.78%
XIIML	MSCI Indo Large Cap	289.73	0.97%	4.06%
XIID	IDX30	522.93	0.74%	0.95%
XIFE	FTSE ESG Indonesia	113.77	0.62%	0.24%
XIIC	Consumer Related	1,001.23	0.15%	0.65%
XIIF	Rate Sensitive	518.79	0.78%	0.93%
XISC	BUMN Stocks	708.42	0.84%	-0.77%
XISB	Sovereign Bonds	489.37	-0.23%	6.05%

Conventional		Last	1W	YTD
RDMP	Equity	875.46	0.98%	1.87%
RPCF	Balanced	2,602.72	0.71%	2.67%
RDPCDA	Balanced	969.47	0.36%	N/A
RDPCDB	Balanced	964.74	0.33%	N/A
RDPO 2	Fixed Income	1,086.23	-0.25%	3.64%
RDPU 2	Money Market	1,438.22	0.08%	3.84%

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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