

## Prepare for another high volatility, stay awake and don't stay away



### Key Takeaways

- Major US stock indices fell and entering the bearish zone while benchmark 10-year UST note yield jumped to the highest level in a decade after May-22 CPI data release
- Markets to expect Fed to raise benchmark policy rate by +300 bps in the rest of 5 meeting with the end of year FFR target set at 3.75-4.00% FY22F
- The implication for more hawkish Fed would trigger capital outflows from EM countries
- Assuming risk free rate at 7.4-7.5%, JCI valuation wise would be around 12.8-13.2x P/E at 6,383-6,551
- Stay awake of the market, raise cash and reduce heavy weight index and high beta stock for the tactical purpose to hedge the portfolio

**Victoria Venny Nawang Setyaningrum**  
Head of Research  
[victoria.nawang@mncgroup.com](mailto:victoria.nawang@mncgroup.com)

**Tirta Widi Gilang Citradi**  
Economist & Fixed Income Analyst  
[tirta.citradi@mncgroup.com](mailto:tirta.citradi@mncgroup.com)

### US stock market tumbled

Major US stock indices tumbled starting this week (06/13/22). DJI dropped -2.79%, S&P fell -3.88% and Nasdaq Composite came at worst after losing -4.68% of its market cap. US stock market has officially entered a bearish zone with S&P 500 has lost 22% of its market cap ytd. Market fear gauge (VIX index) rose to 34 points or above ytd average of 26 bps (Exhibit 1).

On the other hand, the benchmark 10-year and 2-year UST note rose +20 bps respectively bringing the spread to narrow to 1 bps (Exhibit 2). Yield on 10-year UST note jumped to 3.37%, the highest in a decade last night. US government bond yield spike and equity market sell off occurred after May-22 inflation data release.

US annual inflation rate increased +8.6% YoY above market consensus forecast at a pace of +8.3% YoY in May-22. Markets were jittered by the elevated inflation that could trigger another economic downturn. Some expect history of stagflation nearly 5 decades ago to repeat.

### The Fed could be more aggressive

Given the elevated inflation, markets now expect a more hawkish Fed. Prior to May-22 inflation data release, US CB is expected to raise FFR target by +200 bps in the rest of FOMC meeting this year. However, based on CME FedWatch tools, markets are now start to anticipate +300 bps FFR hikes for the last 5 meeting starting from Jun-22. Thus the implied FFR target for FY22F would be at 3.75-4.00% by the end of the year (Exhibit 3).

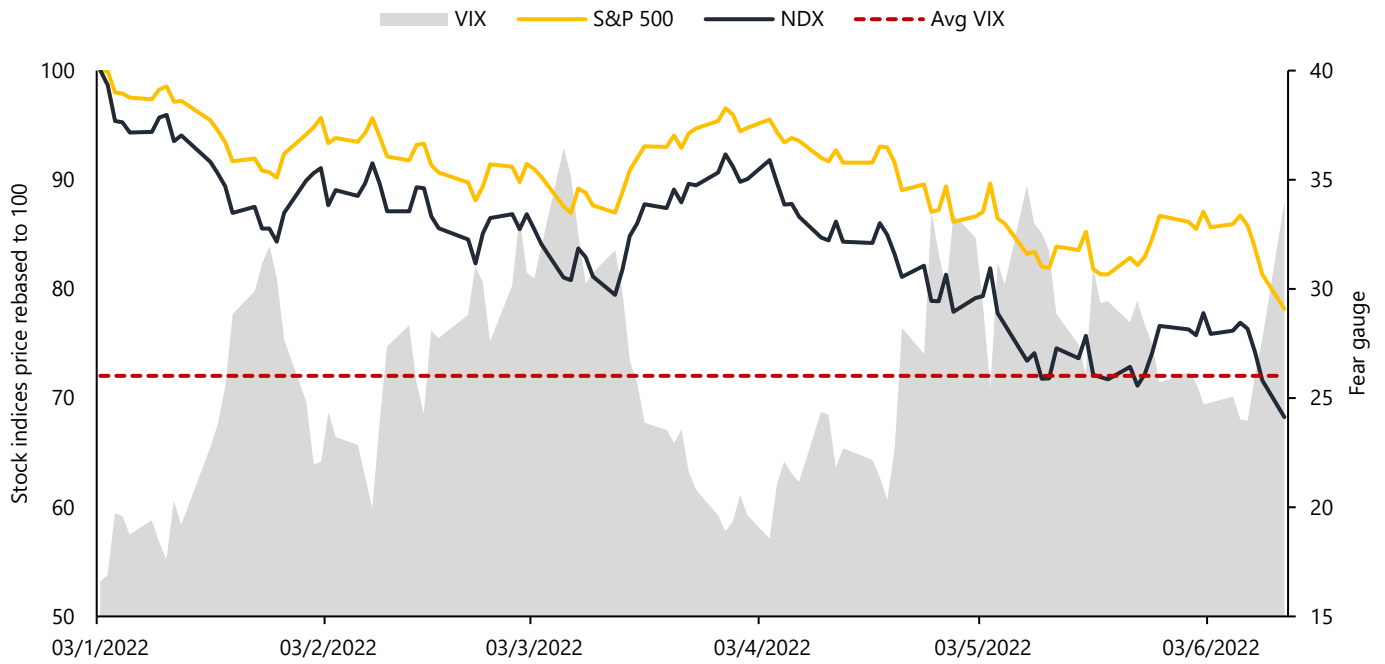
### The implications

The risks have been skewed towards the downside. More aggressive Fed in tightening would result to a capital outflows particularly from EM countries. Assuming the Fed to raise FFR by +75 bps on 14-15 June meeting and 10-year UST note yield could hit 3.5%, the implied CDS would be 130 bps and IDR weakened to 14,700/USD we estimated the risk free rate to be at 7.4-7.5%. Hence JCI derating is likely. Valuation wise, JCI's support level would be at 6,383-6,551 for the near term or 12.8-13.2x P/E after adjusting for risk premium.

### Stay awake, don't stay away!

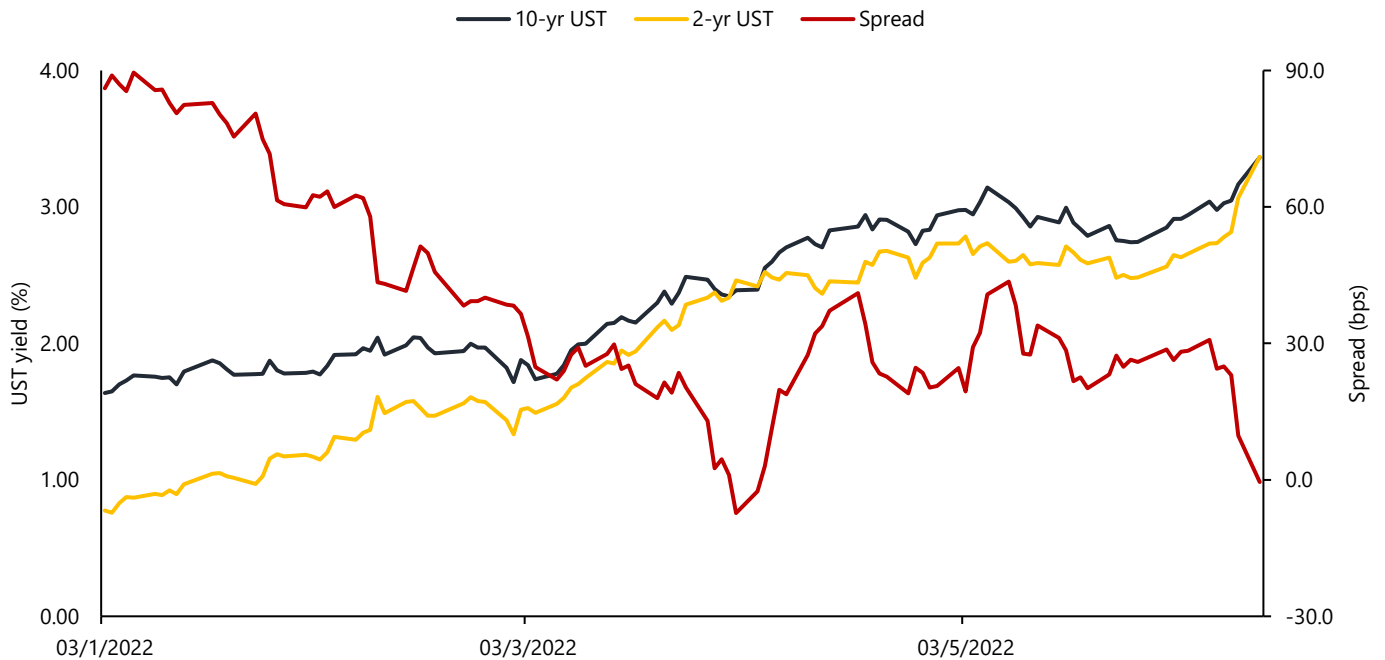
Albeit the convincing domestic macro data, higher volatility is unavoidable. Therefore we recommend investors to wait and see until market calm while also raising cash to buy the dip. Investors may also need to reduce their exposure to heavy weight index and high beta stocks for the tactical purpose.

**Exhibit 1. US stock market indices vs VIX**



Sources : Bloomberg, MNCS Research

**Exhibit 2. UST note spike and narrowing long and shorter rates**



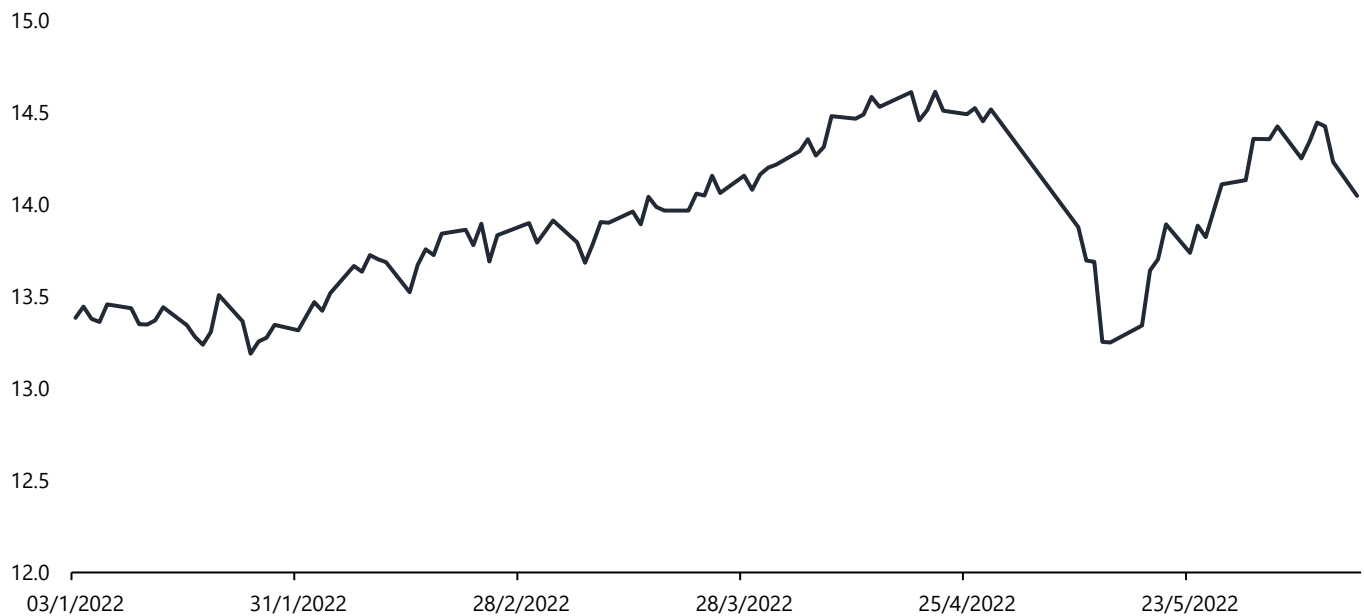
Sources : Bloomberg, MNCS Research

### Exhibit 3. ICBI index breakdown

| FOMC Meeting | Prior May-22 CPI |                | Post May-22 CPI |                |
|--------------|------------------|----------------|-----------------|----------------|
|              | FFR Hikes        | Implied Target | FFR Hikes       | Implied Target |
| Jun-22       | 50               | 125-150        | 75              | 150-175        |
| Jul-22       | 50               | 175-200        | 75              | 225-250        |
| Sep-22       | 50               | 225-250        | 50              | 275-300        |
| Nov-22       | 25               | 250-275        | 50              | 325-350        |
| Dec-22       | 25               | 275-300        | 50              | 375-400        |

Sources : CME Fed Watch, MNCS Research

### Exhibit 4. JCI valuation multiple for FY22F P/E



Sources : Bloomberg, MNCS Research

## MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

## MNC Research Investment Ratings Guidance

**BUY :** Share price may exceed 10% over the next 12 months

**HOLD :** Share price may fall within the range of +/- 10% of the next 12 months

**SELL :** Share price may fall by more than 10% over the next 12 months

**Not Rated :** Stock is not within regular research coverage

## PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

### Disclaimer

*This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.*