

10-yr UST yield fell to 1.45% despite inflation jump to 5.0% in May

Most global markets edged higher, shrugging off inflation fears, as major stock indices in US and Europe hit all-time highs this week, with the high-growth tech sector benefitting the most. 10-yr UST yield fell to 1.45% (-10bps), its lowest level since March, despite US headline inflation jump to 5.0% YoY in May (April: 4.2%), its highest since after the 2018 global financial crisis, while core inflation of 3.8% is also the highest rate in 30 years. While high annual inflation reading partly came from low-base, MoM core inflation of 0.7% in May was also high and well above consensus expectation of 0.4%. US weekly jobless claims fell to 376K, a new pandemic-era low, although this was expected. Markets' positive reactions seem to suggest a consensus view that longer-term inflation remains under control and that Fed will maintain highly accommodative monetary policy for some time. Meanwhile, news of a bipartisan group in US Senate reaching a deal on an infrastructure plan that would not raise corporate taxes is positive for sentiment but it is unclear if Biden administration or Democrats in Congress would agree to such scaled-back spending plan.

In Indonesia, JCI gained 0.50% this week, still supported by inflows from foreign investors (Rp474.7Bn) while bond market maintained its large foreign inflows of Rp9.95Tn on the back of falling global yields. The JCI gain was largely driven by individual stocks, rather than sectoral movements, although the coal and metals mining stocks benefited the most while most property stocks corrected.

The Week Ahead – Fed Meeting and FOMC Projections, BI Rate Decision

The key economic calendar to watch out next week are EU Industrial Production (Mon 16:00), Indonesia Trade Balance (Tue 11:00), US Retail Sales (Tue 19:30), US Industrial Production (Tue 20:15), Fed Rate Decision and FOMC Economic Projections (Thu 01:00), BI Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30), and Indonesia Auto Sales (Fri 17:00)

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets in recent months has shifted to inflation, as reflected in rising bond yields, which could lead to monetary policy tightening in advanced economies. We view rising commodity prices is a bullish case for Emerging Markets, as EM GDP, earnings growth and equity returns are historically positively correlated to commodity prices. However, any unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle markets and lead to fund outflows from EMs. We view such risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected (unlike in 2013), country risk indicators have improved and its bond market is now more resilient. We reiterate our 2021 JCI target of 6,600

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) to minimize volatility. Both XIPI and XISR have overweight positions in BBKA, widely considered as defensive stock at times of uncertainty. Meanwhile, XIPI has managed to closely track JCI performances so far in 2021, well outperforming other broad-based ETFs due to its overweight of cyclicals, including in banking & basic materials sectors, and its underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from economic recovery while still maintaining defensiveness through overweight exposure in BBKA. Meanwhile, Environmental, Social & Governance (ESG) ETFs globally saw record inflows in 2020 amid pandemic and we expect the trend of investing in ESG funds to continue. We also like ETF XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBKA and consumer stocks, and thus may be viewed as riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021 P/E of 15.6x and 15.1x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.3x), XIIT (at 17.1x), XIML (at 16.4x) and XIPI (at 18.7x), and thus may have more upside potential if investors continue to rotate away from defensive sectors into cyclical stocks. Our ETF Fund Guide is on page 2.

| Global Stock Indices | Last | 1W | YTD |
|----------------------|-----------|--------|--------|
| DJIA | 34,479.60 | -0.80% | 12.65% |
| S&P 500 | 4,247.44 | 0.41% | 13.08% |
| Nasdaq | 14,069.42 | 1.85% | 9.16% |
| FTSE 100 | 7,134.06 | 0.92% | 10.43% |
| DAX | 15,693.27 | 0.00% | 14.39% |
| Nikkei 225 | 28,948.73 | 0.02% | 5.48% |
| Hang Seng | 28,842.13 | -0.26% | 5.92% |
| Shanghai | 3,589.75 | -0.06% | 3.36% |
| EIDO | 22.25 | -1.16% | -5.00% |

| JCI Sector Indices | Last | 1W | YTD |
|------------------------|-----------------|--------------|--------------|
| Technology | 8,104.33 | 52.41% | 627.64% |
| Transportation | 1,077.53 | 5.08% | 13.03% |
| Energy | 767.85 | 2.45% | -1.92% |
| Industrials | 983.98 | 1.32% | 5.93% |
| Consumer Cyclical | 758.64 | 1.04% | 2.12% |
| JCI | 6,095.50 | 0.50% | 0.50% |
| Financials | 1,362.18 | 0.23% | 8.07% |
| Basic Materials | 1,166.74 | -0.56% | -5.37% |
| Infrastructures | 934.95 | -0.85% | 8.41% |
| Healthcare | 1,268.70 | -1.71% | -3.18% |
| Consumer Non-Cyclicals | 724.17 | -2.07% | -8.45% |
| Property & Real Estate | 799.44 | -2.45% | -16.35% |

| Rates and Bonds | Last | 1W | YTD |
|------------------|--------|---------|--------|
| UST 2Y Yield | 0.15 | 0 bps | 3 bps |
| UST 10Y Yield | 1.45 | -10 bps | 54 bps |
| Ind GB 10Y Yield | 6.35 | -8 bps | 46 bps |
| USDIDR | 14,189 | -106 | 139 |
| CDS Indo 5Y | 74.44 | -1.68 | 6.93 |

| Foreign Fund Flows | 1W | YTD |
|----------------------------|----------|---------|
| Equity Regular Market (Rp) | +474.7Bn | +5.59Tn |
| Government Bond Market(Rp) | +9.95Tn | +4.65Tn |

| Commodities | Last | 1W | YTD |
|-------------------|----------|---------|--------|
| WTI | 70.41 | 1.13% | 45.12% |
| Brent | 72.66 | 1.07% | 40.27% |
| CPO (Malaysia) | 3,658.00 | -11.41% | 18.96% |
| Coal (New Castle) | 126.00 | 5.22% | 56.52% |

| Funds and ETFs | Last | 1W | YTD | |
|----------------|---------------------|--------|--------|--------|
| <i>ETF</i> | <i>Theme</i> | | | |
| RLQ45 | LQ45 | 955.63 | -0.18% | -1.95% |
| XIIT | IDX30 | 507.01 | 0.01% | -2.20% |
| XIJI | JII | 583.99 | -0.38% | -8.73% |
| XISI | SMInfra18 | 331.28 | 0.13% | -0.21% |
| XISR | SriKehati | 359.90 | -0.51% | -5.11% |
| XIHD | IDXHIDIV20 | 452.79 | 0.35% | -1.44% |
| XIPI | Pefindo I-Grade | 169.90 | 0.02% | -1.49% |
| XIML | MSCI Indo Large Cap | 245.25 | -0.32% | -3.38% |
| XIID | IDX30 | 491.16 | 0.00% | -2.47% |
| XIFE | FTSE ESG Indonesia | 97.12 | -0.55% | - |
| XIIC | Consumer Related | 954.83 | -0.99% | -7.69% |
| XIIF | Rate Sensitive | 531.02 | -0.97% | -9.78% |
| XISC | BJMN Stocks | 703.57 | 0.63% | -7.84% |
| XISB | Sovereign Bonds | 440.29 | 0.69% | -1.31% |

| Conventional | | | | |
|--------------|--------------|----------|--------|---------|
| RDMP | Equity | 948.90 | -0.45% | -10.24% |
| RPCF | Balanced | 2,761.84 | -0.04% | -7.49% |
| RDPU 2 | Money Market | 1,309.50 | 0.08% | 1.94% |

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 | 2021F | 2021F | |
| 1 RLQ45 | 26.8 | 49.0 | 14.1 | 9.3 | 0.90 | 17.3 | 2.7 | 1.12 |
| 2 XIIT | 28.8 | 51.4 | 9.9 | 9.0 | 0.94 | 17.1 | 2.9 | 1.17 |
| 3 XISC | 19.4 | 35.3 | 20.2 | 16.7 | 8.48 | 15.1 | 3.2 | 1.27 |
| 4 XISR | 25.0 | 64.6 | 4.8 | 4.8 | 0.88 | 16.8 | 2.8 | 1.15 |
| 5 XIIF | 12.4 | 50.4 | 36.2 | 0.0 | 1.03 | 16.7 | 2.6 | 1.23 |
| 6 XISI | 47.3 | 14.7 | 19.9 | 16.8 | 1.27 | 15.6 | 3.1 | 1.13 |
| 7 XIPI | 18.4 | 60.4 | 14.2 | 6.1 | 0.98 | 18.7 | 2.3 | 1.19 |
| 8 XIIC | 33.7 | 42.4 | 19.7 | 3.1 | 1.13 | 17.1 | 3.0 | 1.10 |
| 9 XIHD | 31.3 | 51.6 | 4.4 | 11.3 | 1.41 | 16.6 | 3.1 | 1.15 |
| 10 XIJI | 48.9 | 1.2 | 30.5 | 17.9 | 1.50 | 19.7 | 2.3 | 1.09 |
| 11 XIIML | 20.1 | 71.2 | 4.4 | 3.4 | 0.92 | 16.4 | 3.0 | 1.16 |
| 12 XIID | 28.7 | 51.4 | 9.9 | 9.0 | 0.96 | 17.2 | 2.9 | 1.10 |
| 13 XIFE | 31.4 | 55.4 | 5.9 | 6.1 | 1.10 | 16.8 | 2.9 | 1.16 |
| Index | | | | | | | | |
| IDX80 | 30.8 | 39.9 | 18.0 | 11.3 | | 15.9 | 2.6 | |
| JCI | 30.6 | 39.5 | 20.2 | 9.6 | | 18.0 | 1.8 | |

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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