

US jobs report eases inflation fears, lifting global markets except in Asia

Key stock market indices in US and Europe climbed to (or at near) record highs this week as mixed US jobs report eases inflation and Fed tightening fears while Asian markets were mixed. US non farm payrolls data showed a job growth of 559K in May, doubling growth in the prior month, but was still below consensus expectation (650K), while unemployment rate fell more than expected to 5.8% (from 6.1%). Payroll data from ADP released earlier showed private sector jobs increased by 978K in May vs. 654K in April, well above consensus expectations of 650K. The mixed job report lifted stock and bond prices as it raises optimism that Fed will keep its highly accommodative monetary policy given its view that it was far from achieving its inflation and employment targets. 10-yr UST yield fell to 1.56% (-6.6bps) following release of the jobs report. Other US economic data released this week were positive with the weekly jobless claims still declining to a new pandemic-era low and ISM PMI surveys showing stronger than expected expansions in manufacturing and services sectors. Meanwhile, in Europe, EU's inflation rate of 2% YoY in May was slightly higher than expected while its April retail sales growth of 23.9% YoY was slightly below consensus forecast.

In Indonesia, JCI jumped 3.70% this week amid returning inflows from foreign investors in both equity market (Rp2.5Tn) and bond market (Rp5.8Tn). Most of the major stocks in various sectors reported significant gains except for select consumer, property and metals mining stocks.

The Week Ahead – Indonesia Retail Sales, ECB Rate Decision, US Inflation

The key economic calendar to watch out for next week are China Trade Balance (Mon 10:00), Indonesia Retail Sales (Thu 10:00), ECB Interest Rate Decision (Thu 18:45), US Inflation Rate (Thu 19:30), US Initial Jobless Claims (Thu 19:30), US Michigan Current Conditions, Consumer Sentiment & Inflation Expectations (Fri 21:00). Meanwhile, a meeting of leaders of 7 advanced economies (G7 summit) will be held on 11-13 June in Cornwall, UK.

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 BBCA, 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 BBCA. 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 XIIML (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 BBCA 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 2021F P/E of 15.6x and 15.0x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.4x), XIIT (at 17.2x), XIIML (at 16.5x) and XIPI (at 18.8x), 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	34,756.39	0.66%	13.56%
S&P 500	4,229.89	0.61%	12.61%
Nasdaq	13,814.49	0.48%	7.19%
FTSE 100	7,069.04	0.66%	9.42%
DAX	15,692.90	1.11%	14.39%
Nikkei 225	28,941.52	-0.71%	5.46%
Hang Seng	28,918.10	-0.71%	6.20%
Shanghai	3,591.84	-0.25%	3.42%
EIDO	22.51	5.38%	-3.89%

JCI Sector Indices	Last	1W	YTD
Technology	5,317.29	52.31%	377.41%
Infrastructures	942.92	6.89%	9.33%
Financials	1,359.00	4.12%	7.82%
JCI	6,065.17	3.70%	0.00%
Basic Materials	1,173.26	2.72%	-4.84%
Healthcare	1,290.81	2.31%	-1.49%
Consumer Cyclical	750.86	2.18%	1.07%
Consumer Non-Cyclicals	739.51	1.88%	-6.51%
Industrials	971.18	1.35%	4.55%
Energy	749.46	0.96%	-4.27%
Property & Real Estate	819.51	0.77%	-14.25%
Transportation	1,025.44	-1.20%	7.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	1 bps	3 bps
UST 10Y Yield	1.56	-4 bps	64 bps
Ind GB 10Y Yield	6.42	-1 bps	54 bps
USDIDR	14,295	10	245
CDS Indo 5Y	75.62	-0.99	8.10

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.5Tn	+5.12Tn
Government Bond Market (Rp)	+5.8Tn	-11.17Tn

Commodities	Last	1W	YTD
WTI	69.37	4.60%	42.97%
Brent	71.89	3.25%	38.78%
CPO (Malaysia)	4,111.00	2.52%	33.69%
Coal (New Castle)	119.00	12.26%	47.83%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	957.38	4.90%	-1.77%
XIIT	IDX30	506.95	5.12%	-2.21%
XIJI	JII	586.19	3.75%	-8.38%
XISI	SMInfra18	330.83	7.24%	-0.35%
XISR	Sri Kehati	361.74	4.39%	-4.63%
XIHD	IDXHIDIV20	451.19	5.39%	-1.79%
XIPI	Pefindo I-Grade	169.87	4.62%	-1.51%
XIIML	MSCI Indo Large Cap	246.04	4.74%	-3.07%
XIID	IDX30	491.18	5.09%	-2.47%
XIFE	FTSE Indo ESG	97.66	4.70%	-
XIIC	Consumer Related	964.34	3.98%	-6.77%
XIIF	Rate Sensitive	536.19	3.93%	-8.91%
XISC	BUMN Stocks	699.15	4.33%	-8.42%
XISB	Sovereign Bonds	437.26	0.39%	-1.99%
<i>Conventional</i>				
RDMP	Equity	953.20	4.70%	-9.84%
RPCF	Balanced	2,762.86	3.49%	-7.46%
RDPU2	Money Market	1,308.90	0.10%	1.90%

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. Cyclicals	Commodities	Cash	2021F	2021F		
1 RLQ45	27.2	49.1	14.5	9.0	0.19	17.4	2.7	1.12	
2 XIIT	29.2	51.6	10.3	8.8	0.15	17.2	2.9	1.17	
3 XISC	19.8	35.5	20.2	16.5	7.93	15.0	3.2	1.27	
4 XISR	25.5	64.6	4.9	4.8	0.18	17.0	2.7	1.15	
5 XIIF	12.4	50.0	37.0	0.0	0.63	16.8	2.6	1.23	
6 XISI	47.4	14.8	20.5	17.0	0.40	15.6	3.1	1.13	
7 XIPI	18.7	60.8	14.4	5.8	0.35	18.8	2.2	1.19	
8 XIIC	34.3	42.0	20.4	2.9	0.48	17.2	3.0	1.10	
9 XIHD	32.1	51.7	4.7	11.1	0.36	16.7	3.1	1.15	
10 XIJI	49.9	1.3	31.1	17.4	0.33	19.9	2.2	1.09	
11 XIIML	20.4	71.4	4.5	3.4	0.29	16.5	3.0	1.16	
12 XIID	29.2	51.5	10.3	8.8	0.18	17.3	2.9	1.10	
13 XIFE	32.0	55.4	6.2	6.1	0.31	16.9	2.9	1.16	
Index									
IDX80	31.0	39.7	18.4	10.9		15.9	2.6		
JCI	30.5	38.7	21.5	9.3		18.6	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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