

**Growth vs. inflation conundrum amid massive relief bill, strong jobs report**

Global stock markets ended mixed this week as their daily movements fluctuate between growth optimism and inflation fears. This week's rollout of single-dose Johnson & Johnson vaccine, President Biden's new deals with drugmakers to bolster vaccine supply that moved his vaccine timetable ahead by two months, the Senate's approval of the US\$1.9Tn fiscal relief bill and strong US jobs report released on Friday have raised growth expectations and supported the markets. However, inflation fears are still a key issue for markets amid rising commodity and input prices, overheating concerns, and Fed's unchanged monetary stance despite Fed Chair Powell's concern about a disorderly bond market. In turn, this led to sell-offs and a choppy week in equity and bond markets. The rapid rise in bond yields that upset equity markets in the past 2 weeks continued this week as 10-yr US Treasuries yields rose to 1.58% (+17bps) or up by 66bps ytd, while oil prices jumped to highest levels in over 2 years after OPEC+ meeting decided to keep oil output unchanged through April (not reversing production cuts as expected). US economic data was also positive, with February non-farm payrolls adding 379K jobs (ahead of 182K cons), while unemployment rate decreased to 6.2% (cons: 6.3%).

In Indonesia, JCI was flattish (+0.27%) as prior week's foreign inflows reversed to small outflow (Rp25.1Bn) while bond market sustained outflows of Rp7.8Tn due to inflation fears globally. Cyclical sectors such as property, banking, auto led the market higher, as also select consumer staples including tobacco stocks, while mining, telecom and infrastructure stocks were hit by profit taking.

**The Week Ahead – US Inflation Rate, ECB Interest Rate Decision**

The key economic calendar to watch out for next week are Germany Industrial Production (Mon 14:00), France Industrial Production (Wed 14:45), US Inflation (Wed 20:30), ECB Interest Rate Decision (Thu 19:45), US Jobless Claims (Thu 20:30), ECB Macro Economic Projections (Thu 21:30), EU Industrial Production (Fri 17:00), US Michigan Consumer Sentiment, Inflation Expectations (Fri 22:00)

**Investment Conclusion**

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets in recent weeks has shifted to inflation fears, as reflected in rapidly rising bond yields and commodity prices, which could lower profit margins and stock valuation, particularly in the Developed Markets. However, we view rising commodity prices is a bullish case for Emerging Markets as EM GDP, earnings growth and equities returns are historically positively correlated to commodity prices. Indonesia's commodity sectors are expected to add 4.2% to JCI earnings growth in 2021, after contributing negatively to equity earnings growth in each of the past 2 years. We maintain our long-held 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending Q1 2021 corporate earnings releases.

**Recommendation**

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45 and XIIT to minimize volatility, and ESG ETF XISR (Sri Kehati) and XIPI (Pefindo i-Grade), which have overweight positions in BBBCA, widely considered as defensive stock at times of uncertainty. Please note that Environmental, Social and Governance ETFs globally saw record inflows in 2020 amid pandemic. For investors looking to benefit from market rebound, our picks includes ETF XIIM (MSCI Indonesia Large Cap), whose constituents of 11 big cap stocks mostly owned by foreign investors are among most impacted by foreign selling at the beginning of the pandemic and thus should benefit the most from a market recovery. XIIM shares similarity with XISR and XIPI in terms of its overweight in banking sector, including in BBBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBBCA 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 16.1x and 15.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.7x), XIIT (at 17.1x), and XIIM (at 17.2x), and thus may continue to have more upside potential if Indonesia's stock market recovers on sustainable basis and investors continue to rotate away from defensive sectors into cyclical stocks. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	31,496.30	1.82%	2.91%
S&P 500	3,841.94	0.81%	2.29%
Nasdaq	12,920.15	-2.06%	0.25%
FTSE 100	6,630.52	2.27%	2.63%
DAX	13,920.69	0.97%	1.47%
Nikkei 225	28,864.32	-0.35%	5.17%
Hang Seng	29,098.29	0.41%	6.86%
Shanghai	3,501.99	-0.20%	0.83%
EIDO	22.91	0.26%	-2.18%

JCI Sector Indices	Last	1W	YTD
JAKPROP	389.80	3.13%	-1.79%
JAKFIN	1,497.21	2.63%	12.30%
JAKMIND	1,019.43	2.28%	-5.70%
JAKCONS	1,714.27	0.41%	-6.43%
<b>JCI</b>	<b>6,258.75</b>	<b>0.27%</b>	<b>4.68%</b>
JAKTRAD	856.04	-0.68%	11.70%
JAKAGRI	1,427.48	-0.75%	-4.70%
JAKBIND	936.86	-1.50%	1.73%
JAKINFR	1,037.18	-3.10%	3.61%
JAKMINE	1,901.90	-7.18%	-0.71%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	1 bps	2 bps
UST 10Y Yield	1.58	17 bps	66 bps
Ind GB 10Y Yield	6.63	2 bps	74 bps
USDIDR	14,371	136	321
CDS Indo 5Y	79.15	5.74	11.64

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-25.14 Bn	7.81 Tn
Government Bond Market (Rp)	-7.79 Tn	-10.29 Tn

Commodities	Last	1W	YTD
WTI	66.09	7.46%	36.21%
Brent	69.36	4.88%	33.90%
CPO (Malaysia)	3,731.00	-0.29%	10.88%
Coal (New Castle)	87.50	2.82%	8.70%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	980.19	-0.34%	0.57%
XIIT	IDX30	517.78	-0.18%	-0.12%
XIJI	JII	617.22	-3.54%	-3.53%
XISI	SMInfra18	325.29	-1.08%	-2.02%
XISR	Sri Kehati	377.44	0.32%	-0.49%
XIHD	IDXHIDIV20	457.16	0.25%	-0.48%
XIPI	Pefindo I-Grade	178.60	-0.51%	3.55%
XIIM	MSCI Indo Large Cap	253.87	0.43%	0.01%
XIID	IDX30	502.53	-0.20%	-0.21%
XIIC	Consumer Related	1,005.26	0.89%	-2.81%
XIIF	Rate Sensitive	588.01	0.84%	-0.10%
XISC	BUMN Stocks	775.04	-2.08%	1.53%
XISB	Sovereign Bonds	428.46	-0.15%	-3.96%
<i>Conventional</i>				
RDMP	Equity	1,009.25	0.44%	-4.53%
RPCF	Balanced	2,872.77	-0.21%	-3.78%
RDP2	Money Market	1,295.14	0.11%	0.82%

## 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	
<b>1 RLQ45</b>	26.1	50.5	15.0	8.4	0.04	17.7	2.5	1.12
2 XIIT	27.9	53.1	10.7	8.1	0.08	17.1	2.7	1.17
<b>3 XISC</b>	18.8	36.1	26.3	18.2	0.60	15.7	3.0	1.27
4 XISR	25.1	65.0	5.2	4.4	0.23	17.7	2.6	1.15
<b>5 XIIF</b>	10.7	50.0	38.7	0.0	0.58	17.4	2.5	1.23
6 XISI	43.6	17.4	25.1	13.7	0.19	16.1	3.0	1.13
<b>7 XIPI</b>	17.3	60.9	16.2	5.5	0.11	19.5	2.1	1.19
8 XIIC	34.4	43.6	19.8	0.0	2.12	17.7	2.9	1.10
<b>9 XIHD</b>	30.7	53.7	4.6	10.7	0.29	17.3	3.0	1.15
10 XIJI	48.9	1.5	32.8	16.6	0.23	19.6	2.1	1.09
<b>11 XIIML</b>	20.8	72.2	3.9	3.0	0.16	17.2	2.8	1.16
12 XIID	27.9	53.1	10.7	8.1	0.16	17.2	2.7	1.10
<b>Index</b>								
<b>IDX80</b>	29.8	41.7	18.1	10.4		16.2	2.5	
JCI	29.7	40.4	21.3	8.6		15.7	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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