

Weak US job growth dampens inflation worries, spurs stocks recoveries

Global equities recovered from losses earlier in the week to record new highs amid ongoing tech selloffs and inflation worries. Friday's publication of weak US job report drove up stocks as it calmed inflation fears after Treasury Secretary Yellen's remarks on Tuesday that rates may have to rise somewhat to prevent economy from overheating amid rising commodity prices particularly energy, industrial metals and agriculture. US non farm payrolls for April expanded by 266,000 jobs, or a fraction of consensus expectation of growth of 978,000, while unemployment rate rose from 6.0% to 6.1% (vs. 5.8% expected). The job report suggested US economy was not growing as fast as some expected, although weekly jobless claims were still trending down to pandemic-era low of 498,000, while 10-yr UST yields eased to 1.58% on the back of sustained dovish remarks from Fed officials. Inflation will likely remain a key market focus next week when April inflation data is released, with consensus expecting headline CPI inflation to rise to 3.6%, albeit transitory due to low base effect. Meanwhile, Asian stock markets traded mixed despite bullish commodity prices with Korea, Taiwan and Japanese equities continue to well outperformed the rest of Asia.

In Indonesia, JCI fell 1.12% despite foreign inflows (Rp882Bn), which was also seen in bond market (Rp1.45Tn). Gains in some cyclical stocks in metals mining, construction, basic industries and the more defensive healthcare sectors were not able to offset losses from consumer, telecommunication, poultry, cement, and banking stocks.

The Week Ahead – US Inflation & Retail Sales, Michigan Consumer Surveys

The key economic calendar to watch out for next week includes EU Industrial Production (Wed 16:00), US Inflation Rate (Wed 19:30), US Initial Jobless Claims (Thu 19:30), ECB Monetary Policy Meeting Accounts (Fri 18:30), US Retail Sales (Fri 19:30), Industrial Production (Fri 20:15), and Michigan Consumer Sentiment and Expectations (Fri 21:00).

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets in recent weeks has shifted to rising inflation, 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 reiterate our long-held 2021 JCI target of 6,600 (bullish case: 7,000) given rising US inflation and Fed's tightening bias.

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 BBBCA, 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 BBBCA. 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 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 14.9x and 14.4x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.4x), XIIT (at 16.0x), XIIML (at 16.0x) and XIPI (at 18.2x), 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	34,777.76	2.67%	13.63%
S&P 500	4,232.60	1.23%	12.69%
Nasdaq	13,752.24	-1.51%	6.70%
FTSE 100	7,129.71	2.29%	10.36%
DAX	15,399.65	1.74%	12.25%
Nikkei 225	29,357.82	1.89%	6.97%
Hang Seng	28,610.65	-0.40%	5.07%
Shanghai	3,418.87	-0.81%	-1.56%
EIDO	22.15	2.36%	-5.42%

JCI Sector Indices	Last	1W	YTD
IDXTECH	3,335.39	4.70%	199.47%
IDXHLTH	1,286.62	0.72%	-1.81%
IDXTRANS	1,037.40	-0.42%	8.83%
IDXFIN	1,321.17	-0.49%	4.82%
IDXENER	739.55	-0.67%	-5.53%
IDXINDUS	951.16	-0.74%	2.29%
IDXPROP	870.08	-0.95%	-8.96%
JCI	5,928.31	-1.12%	-0.85%
IDXBASIC	1,227.34	-1.51%	-0.45%
IDXINFRA	866.93	-1.70%	0.52%
IDXCYC	731.57	-2.18%	-1.52%
IDXNCYC	729.67	-2.72%	-7.76%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	-1 bps	3 bps
UST 10Y Yield	1.58	-5 bps	67 bps
Ind GB 10Y Yield	6.41	-5 bps	52 bps
USDIDR	14,285	-160	235
CDS Indo 5Y	77.14	-0.27	9.63

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+881.95Bn	+1.66Tn
Government Bond Market (Rp)	+1.45Tn	-7.86Tn

Commodities	Last	1W	YTD
WTI	64.90	2.08%	33.76%
Brent	68.24	1.47%	31.74%
CPO (Malaysia)	4,351.00	12.49%	37.26%
Coal (New Castle)	96.05	2.95%	19.32%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	927.94	-1.24%	-4.79%
XIIT	IDX30	488.45	-1.31%	-5.78%
XIJI	JII	579.90	-2.30%	-9.36%
XISI	SMInfra18	310.99	-1.63%	-6.32%
XISR	Sri Kehati	350.07	-1.19%	-7.70%
XIHD	IDXHIDIV20	431.30	-1.24%	-6.11%
XIPI	Pefindo I-Grade	166.51	-1.09%	-3.46%
XIIML	MSCI Indo Large Cap	237.29	-1.32%	-6.52%
XIID	IDX30	473.53	-1.32%	-5.97%
XIFE	FTSE Indo ESG	93.98	-1.17%	-
XIIC	Consumer Related	941.88	-2.04%	-8.94%
XIIF	Rate Sensitive	533.81	-1.52%	-9.31%
XISC	BUMN Stocks	698.81	-0.70%	-8.46%
XISB	Sovereign Bonds	434.47	0.67%	-2.62%
<i>Conventional</i>				
RDMP	Equity	930.16	-1.32%	-12.01%
RPCF	Balanced	2,704.28	-0.84%	-9.42%
RDP2U	Money Market	1,304.40	0.08%	1.55%

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	26.4	48.9	14.9	9.2	0.57	16.4	2.7	1.12
2 XIIT	28.4	51.7	10.3	9.0	0.60	16.0	3.0	1.17
3 XISC	19.8	34.6	20.6	17.6	7.35	14.4	3.4	1.27
4 XISR	25.1	64.4	5.1	4.8	0.58	16.4	2.8	1.15
5 XIIF	11.4	49.2	38.5	0.0	0.90	16.3	2.7	1.23
6 XISI	46.2	14.9	21.5	16.9	0.48	14.9	3.3	1.13
7 XIPI	17.9	59.7	15.7	6.2	0.44	18.2	2.3	1.19
8 XIIC	33.5	41.9	20.8	0.0	3.81	16.5	3.1	1.10
9 XIHD	31.2	52.2	4.8	10.9	0.99	16.2	3.2	1.15
10 XIJI	48.0	1.4	32.5	17.7	0.39	18.2	2.3	1.09
11 XIIML	20.9	70.9	4.3	3.2	0.69	16.0	3.1	1.16
12 XIID	28.3	51.7	10.3	9.0	0.60	16.1	3.0	1.10
13 XIFE	31.1	55.6	6.2	6.2	0.78	16.2	2.9	1.16
Index								
IDX80	30.1	39.7	19.0	11.2		15.5	2.6	
JCI	30.6	38.8	20.9	9.6		16.0	1.9	

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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