

Fed raised GDP and stayed dovish but yields rose to pandemic-era high

Several major global markets closed the week lower, after rising to record highs early in the week, as US 10-yr yields climbed to a pandemic-era high of 1.75% on Thursday after a brief pause. US stock markets continue to vacillate between pricing-in stronger growth (positive) vs. inflation (negative) as the US economy is poised for a strong recovery. The Fed now expects GDP to grow 6.5% in 2021 (up from 4.2%), with inflation running at a faster rate of 2.4% (previously 1.8%) and unemployment to fall to 4.5% (from 5.0%) vs. prior estimates in December. However, despite dialing up its economic growth expectations, the Fed signaled that there are no expected interest rate hikes for the next two years as most of FOMC members still expecting to keep rates near zero through 2023, as seen in their so-called dot-plot projections. The projections for PCE inflation are raised slightly by only 0.1% to 2.0%/2.1% for 2022/2023, respectively, reflecting Fed's confidence that the rise in inflation will be short-lived. Meanwhile, the week's economic data release was less positive as both US retail sales and industrial production fell by 3.0% and 2.3% MoM in February, much weaker vs. consensus expectations of -0.5%/+0.3%, respectively, while weekly jobless claims rose to 770K (cons: 700K).

In Indonesia, JCI stayed relatively flat (-0.03%) as foreign inflows returned to the market (Rp978.3Bn) while outflows from the bond market receded to Rp1.7Tn, from Rp7-8Tn in prior two weeks. Leading the market higher are big cap stocks in auto, consumer, and basic industries while smaller cap stocks in the property, metals mining and plantation sectors were the lead decliners.

The Week Ahead – Fed Chair Powell Speech, Markit PMIs for EU and US

The key economic calendar to watch out for next week are Indonesia 2W Sales (Mon 17:00), Fed Chair Powell Speech (Mon 20:00) and Testimonies (Tue 23:00), EU Manufacturing & Services PMI (Wed 16:00), US Durable Goods Orders (Wed 19:30), US Markit Manufacturing & Services PMI (Wed 20:45), US Jobless Claims (Thu 19:30), and US Personal Income & Spending Growth (Fri 19:30).

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 such as 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. XIPI has managed to closely track JCI performances so far in 2021, well outperforming other broad-based ETFs due to its overweight of cyclical, 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 in coming years.

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 16.5x and 15.9x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.1x), XIIT (at 17.4x), XIIML (at 17.5x) and XIPI (at 19.8x), 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	32,627.97	-0.46%	6.60%
S&P 500	3,913.10	-0.77%	4.18%
Nasdaq	13,215.24	-0.79%	2.54%
FTSE 100	6,708.71	-0.78%	3.84%
DAX	14,621.00	0.82%	6.58%
Nikkei 225	29,792.05	0.25%	8.56%
Hang Seng	28,990.94	0.87%	6.46%
Shanghai	3,404.66	-1.40%	-1.97%
EIDO	23.35	1.35%	-0.30%

JCI Sector Indices	Last	1W	YTD
JAKMIND	1,067.46	5.13%	-1.26%
JAKCONS	1,755.48	2.09%	-4.18%
JAKBIND	1,005.96	1.33%	9.23%
JAKINFR	1,076.96	0.28%	7.59%
JCI	6,356.16	-0.03%	6.31%
JAKTRAD	855.52	-0.21%	11.63%
JAKFIN	1,496.79	-0.93%	12.27%
JAKMINE	1,855.00	-1.95%	-3.16%
JAKAGRI	1,461.09	-2.91%	-2.46%
JAKPROP	391.60	-3.08%	-1.33%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	0 bps	3 bps
UST 10Y Yield	1.72	11 bps	81 bps
Ind GB 10Y Yield	6.82	11 bps	94 bps
USDIDR	14,476	91	426
CDS Indo 5Y	74.92	-5.78	7.41

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+978.31Bn	+7.38 Tn
Government Bond Market (Rp)	-1.69 Tn	-20.67 Tn

Commodities	Last	1W	YTD
WTI	61.44	-6.36%	26.63%
Brent	64.53	-6.78%	24.58%
CPO (Malaysia)	3,799.00	-7.70%	12.90%
Coal (New Castle)	92.75	4.21%	15.22%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	997.42	0.75%	2.34%
XIIT	IDX30	525.73	0.78%	1.41%
XIJI	JII	634.84	0.34%	-0.78%
XISI	SMInfra18	330.12	0.21%	-0.56%
XISR	Sri Kehati	380.92	0.99%	0.43%
XIHD	IDXHIDIV20	467.29	1.18%	1.72%
XIPI	Pefindo I-Grade	181.19	0.07%	5.05%
XIIML	MSCI Indo Large Cap	257.12	1.25%	1.29%
XIID	IDX30	510.10	0.77%	1.29%
XIIC	Consumer Related	1,027.32	0.79%	-0.68%
XIIF	Rate Sensitive	598.21	0.02%	1.63%
XISC	BUMN Stocks	778.54	-0.36%	1.98%
XISB	Sovereign Bonds	421.41	-1.13%	-5.54%
<i>Conventional</i>				
RDMF	Equity	1,026.95	1.23%	-2.86%
RPCF	Balanced	2,888.82	0.33%	-3.24%
RDP2U	Money Market	1,297.20	0.08%	0.98%

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	49.8	15.6	8.1	0.07	18.1	2.5	1.12
2 XIIT	28.3	52.7	11.1	7.9	0.05	17.4	2.7	1.17
3 XISC	19.7	35.7	26.7	15.5	2.42	15.9	3.0	1.27
4 XISR	25.6	64.7	5.3	4.2	0.17	18.0	2.6	1.15
5 XIIF	11.0	49.2	39.3	0.0	0.44	17.7	2.5	1.23
6 XISI	46.7	16.1	23.8	13.0	0.46	16.5	2.9	1.13
7 XIPI	17.6	60.0	17.2	5.1	0.14	19.8	2.1	1.19
8 XIIC	33.5	42.8	20.6	0.0	3.13	18.1	2.8	1.10
9 XIHD	30.9	53.3	4.8	10.8	0.23	17.7	2.9	1.15
10 XIJI	48.8	1.4	34.0	15.6	0.16	20.1	2.1	1.09
11 XIIML	21.1	71.6	4.2	3.0	0.16	17.5	2.8	1.16
12 XIID	28.2	52.7	11.0	7.9	0.11	17.5	2.7	1.10
Index								
IDX80	30.0	41.3	18.7	10.0		16.6	2.4	
JCI	30.0	39.6	22.0	8.4		16.9	1.7	

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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