

Growth optimism buoyed by Fed's policy, path towards herd immunity

Developed market equities moved steadily higher, buoyed by growth optimism arising from Fed's commitment to maintain low rates, IMF's upgrades of global growth forecasts to a level not seen since 1980, a path to herd immunity in rich countries, delayed reaction to the strong US job report released when markets were closed for Easter holidays, and stabilising yields. FOMC Minutes revealed that members stated it would likely be some time before they will need to start winding down \$120Bn in bond purchases. Meanwhile, the IMF upgraded again its world growth forecast to 6.0% in 2021, up from 5.5% in January, reflecting fiscal support and vaccine-powered recovery in advanced nations in the second half of the year, while warning about widening inequality and divergence with less-developed economies. The Fed's pledge to maintain low rates and make no changes to bond buying program seemed to have put a lid on bond yields although 10-yr UST yields rose again on Friday in response to inflation data showing a 1% MoM rise in producer prices in March (cons: 0.5%), bringing the annual rise to 4.2% YoY (cons: 3.8%), which was the largest advance since Sep 2011. Meanwhile, stock markets in Asia were uneven as gains in the tech-heavy Korea and Taiwan markets were offset by losses in other key markets.

In Indonesia, JCI gained a modest 0.98% this week, after two consecutive weeks of big corrections, despite sustained foreign outflows (-Rp1.87Tn) in contrast to inflows in bond market (+Rp3.33Tn). Trading, banking, and mining stocks led the market higher while auto and construction stocks mostly corrected.

The Week Ahead – US Inflation, Indonesia Trade, China GDP Growth

The key economic calendar to watch out next week are Indonesia Retail Sales (Mon 10:00), EU Retail Sales (Mon 16:00), US Inflation (Tue 19:30), EU Industrial Production (Wed 16:00), Fed Chair Powell Speech (Wed 23:00), Indonesia Trade Balance (Thu 11:00), US Retail Sales and Weekly Jobless Claims (Thu 19:30), US Industrial Production (Thu 20:15), China GDP Growth Rate (Fri 09:00).

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 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, 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 15.9x and 15.2x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.1x), XIIT (at 16.5x), XIIML (at 16.7x) and XIPI (at 18.9x), 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	33,800.00	1.95%	10.43%
S&P 500	4,128.80	2.71%	9.92%
Nasdaq	13,900.18	3.12%	7.85%
FTSE 100	6,915.75	2.65%	7.05%
DAX	15,234.16	0.84%	11.05%
Nikkei 225	29,768.06	-0.29%	8.47%
Hang Seng	28,698.80	-0.83%	5.39%
Shanghai	3,450.68	-0.97%	-0.64%
EIDO	21.67	-1.19%	-7.47%

JCI Sector Indices	Last	1W	YTD
JAKTRAD	880.60	2.81%	14.91%
JAKFIN	1,392.19	1.41%	4.43%
JAKMINE	1,802.57	1.12%	-5.90%
JCI	6,070.21	0.98%	1.52%
JAKBIND	963.39	0.56%	4.61%
JAKINFR	1,044.80	0.48%	4.37%
JAKAGRI	1,440.06	0.29%	-3.86%
JAKCONS	1,693.27	0.09%	-7.58%
JAKPROP	360.04	-0.32%	-9.29%
JAKMIND	995.97	-0.77%	-7.87%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	-3 bps	4 bps
UST 10Y Yield	1.67	-4 bps	75 bps
Ind GB 10Y Yield	6.45	-31 bps	56 bps
USDIDR	14,565	-12	515
CDS Indo 5Y	85.06	-1.18	17.55

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.87 Tn	+2.33 Tn
Government Bond Market (Rp)	+3.33 Tn	-18.15 Tn

Commodities	Last	1W	YTD
WTI	59.27	-3.55%	22.16%
Brent	62.70	-3.33%	21.04%
CPO (Malaysia)	3,803.00	1.66%	16.48%
Coal (New Castle)	93.00	-3.63%	15.53%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	952.44	1.12%	-2.28%
XIIT	IDX30	501.56	1.06%	-3.25%
XIJI	JII	611.84	-0.45%	-4.37%
XISI	SMInfra18	316.15	1.62%	-4.77%
XISR	Sri Kehati	362.84	1.28%	-4.34%
XIHD	IDXHIDIV20	448.16	1.28%	-2.44%
XIPI	Pefindo I-Grade	172.85	1.71%	0.22%
XIIML	MSCI Indo Large Cap	245.76	1.39%	-3.18%
XIID	IDX30	486.47	1.05%	-3.40%
XIFE	FTSE Indo ESG	97.27	1.10%	-
XIIC	Consumer Related	989.52	1.25%	-4.33%
XIIF	Rate Sensitive	556.84	1.12%	-5.40%
XISC	BUMN Stocks	721.48	0.65%	-5.49%
XISB	Sovereign Bonds	430.49	1.58%	-3.51%
<i>Conventional</i>				
RDMP	Equity	977.51	1.10%	-7.54%
RPCF	Balanced	2,793.41	1.30%	-6.44%
RDP2U	Money Market	1,300.15	0.09%	1.21%

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	26.9	48.6	15.3	8.3	0.95	17.1	2.6	1.12
2	XIIT	28.9	51.5	10.5	8.1	0.98	16.5	2.9	1.17
3	XISC	20.3	35.9	23.2	16.2	4.36	15.2	3.2	1.27
4	XISR	26.1	63.1	5.0	4.6	1.23	17.1	2.7	1.15
5	XIIF	11.5	49.4	38.1	0.0	0.98	16.7	2.7	1.23
6	XISI	47.5	15.8	21.7	14.0	1.03	15.9	3.1	1.13
7	XIPI	17.9	59.0	16.6	5.1	1.30	18.9	2.2	1.19
8	XIIC	34.1	41.6	20.5	0.0	3.77	17.3	3.0	1.10
9	XIHD	31.1	52.0	4.7	11.0	1.18	16.8	3.1	1.15
10	XIJI	49.2	1.3	33.3	16.0	0.13	19.2	2.1	1.09
11	XIML	21.6	69.6	4.3	3.2	1.22	16.7	3.0	1.16
12	XIID	28.9	51.5	10.5	8.1	1.00	16.6	2.9	1.10
13	XIFE	32.0	54.4	6.3	6.2	1.14	16.7	2.8	1.16
Index									
	IDX80	30.7	40.7	18.3	10.3		15.9	2.6	
	JCI	31.0	38.7	21.7	8.6		16.4	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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