

Stocks fell as 10-yr yields hit 1.61% despite Fed's soft inflation expectation

Global stock markets pulled back sharply this week as inflation and interest rate fears return. Anticipation of a stronger growth since the start of vaccine rollouts in November has elevated commodity prices and bond yields. The rise in yields accelerated in the past 2 weeks as 10-year US Treasuries hit 1.61% on Thursday, its highest level in more than a year, unsettling both equity and bond markets. Meanwhile, crude oil prices jumped to above US\$60 a barrel for the first time in more than two years and copper prices topped a nine-year high before easing by end of week. Fed Chair Powell testimony confirming the Fed's dovish stance and expectation that it may take over three years to reach its inflation goals has not adequately mitigated the worries, which are also fueled by strong economic data. US jobless claims of 730K came below expectation (cons: 838K), durable goods order & personal income growth of 3.4%/10% MoM in January was also above expectation (cons: 1.1%/9.5%). Meanwhile, the House of Representatives has approved a new relief package this weekend although the Senate has ruled out inclusion of a minimum wage rise in the bill and may cut the package size.

In Indonesia, JCI was flattish (+0.16%) amid returning foreign inflows (Rp994Bn) while bond market saw big outflows of Rp17.4Tn due to renewed inflation fears globally. Leading the index higher are mostly small cap stocks in infrastructure, plantation, banking and mining sectors, while property, construction and basic industries stocks were hardest hit by profit taking. Most big cap stocks were hit by significant corrections except in the telecommunication sector.

The Week Ahead – Indonesia Manufacturing PMI & Inflation Rate

The key economic calendar to watch out for next week are Indonesia Market Manufacturing PMI (Mon 07:30), China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 22:00), EU Inflation Rate (Tue 17:00), China Caixin Services PMI (Wed 08:45), US ISM Non-Manufacturing PMI (Wed 22:00), EU Retail Sales (Thu 17:00), US Initial Jobless Claims and Factory Orders (Thu 20:30/22:00), US Non-Farm Payrolls and Unemployment Rate (Fri 20:30).

Investment Conclusion

Equity markets globally have recovered strongly, pricing in V-shaped recoveries in economic growth and equity earnings in 2021, as the worst of the economic fallout from the pandemic seems largely over despite fears over new waves of infections. We expect JCI to continue with its uptrend momentum, driven by catalysts such as vaccine distribution, Omnibus Law, commodity price recovery, although valuation has priced-in earnings recovery prospects. We maintain our 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending release of Q1 2021 corporate earnings results at end of April and May.

Recommendation

We have been recommending investors to stay defensive since 2019, 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 BBCA, widely considered as defensive stock at times of uncertainty. Please note that ESG (Environmental, Social and Governance) ETFs globally saw record inflows in 2020 amid the pandemic. For investors looking to benefit from market rebound, our pick is ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 11 large cap stocks mostly owned by foreign investors are among the most impacted by foreign selling and thus should benefit the most from market recovery. XIIML shares similarity with XISR and XIPI in terms of its overweight in banking sector, including in BBCA.

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 16.0x and 15.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.7x), XIIT (at 17.1x), and XIIML (at 17.1x), 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	30,932.37	-1.78%	1.06%
S&P 500	3,811.15	-2.45%	1.47%
Nasdaq	13,192.34	-4.92%	2.36%
FTSE 100	6,483.43	-2.12%	0.35%
DAX	13,786.29	-1.48%	0.49%
Nikkei 225	28,966.01	-3.50%	5.55%
Hang Seng	28,980.21	-5.43%	6.42%
Shanghai	3,509.08	-5.06%	1.04%
EIDO	22.85	-3.22%	-2.43%

JCI Sector Indices	Last	1W	YTD
JAKINFR	1,070.39	5.41%	6.93%
JAKAGRI	1,438.28	1.73%	-3.98%
JAKFIN	1,458.86	0.99%	9.43%
JCI	6,241.80	0.16%	4.39%
JAKTRAD	861.93	-0.26%	12.47%
JAKMINE	2,048.92	-0.39%	6.96%
JAKCONS	1,707.35	-1.07%	-6.81%
JAKBIND	951.10	-2.41%	3.27%
JAKPROP	377.96	-2.59%	-4.77%
JAKMIND	996.75	-4.09%	-7.80%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.13	2 bps	1 bps
UST 10Y Yield	1.41	7 bps	49 bps
Ind GB 10Y Yield	6.60	5 bps	71 bps
USDIDR	14,300	235.15	250.15
CDS Indo 5Y	79.42	12.15	11.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+993.7 Bn	+7.83 Tn
Government Bond Market (Rp)	-17.41 Tn	+2.48 Tn

Commodities	Last	1W	YTD
WTI	61.50	3.81%	26.75%
Brent	64.42	2.40%	24.36%
CPO (Malaysia)	3,726.00	5.79%	10.73%
Coal (New Castle)	82.95	-3.27%	3.04%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	983.58	-0.83%	0.92%
XIIT	IDX30	518.73	-0.54%	0.06%
XIJI	JII	639.86	0.44%	0.01%
XISI	SMInfra18	328.84	0.25%	-0.95%
XISR	Sri Kehati	376.23	-1.30%	-0.81%
XIHD	IDXHIDIV20	456.03	0.25%	-0.73%
XIPI	Pefindo I-Grade	179.51	-0.45%	4.08%
XIIML	MSCI Indo Large Cap	252.79	-0.86%	-0.41%
XIID	IDX30	503.51	-0.55%	-0.02%
XIIC	Consumer Related	996.35	-0.98%	-3.67%
XIIF	Rate Sensitive	583.13	-1.74%	-0.93%
XISC	BUMN Stocks	791.52	-0.46%	3.68%
XISB	Sovereign Bonds	429.11	-0.41%	-3.82%
<i>Conventional</i>				
RDMP	Equity	1,004.82	-1.38%	-4.95%
RPCF	Balanced	2,878.71	-0.77%	-3.58%
RDP2	Money Market	1,293.75	0.08%	0.72%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x) 2021F	Dividend Yield 2021F	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash			
1 RLQ45	26.8	49.4	14.8	9.0	0.05	17.7	2.5	1.12
2 XIIT	28.7	52.1	10.5	8.7	0.09	17.1	2.7	1.18
3 XISC	19.1	34.6	25.7	20.0	0.60	15.7	3.0	1.22
4 XISR	26.0	64.0	4.9	4.8	0.26	17.6	2.6	1.17
5 XIIF	11.2	49.5	38.6	0.0	0.66	17.2	2.5	1.22
6 XISI	45.2	16.8	23.7	14.1	0.21	16.0	3.0	1.13
7 XIPI	17.8	59.4	16.5	6.2	0.14	19.4	2.1	1.20
8 XIIC	35.4	43.1	19.3	0.0	2.18	17.5	2.9	1.10
9 XIHD	31.8	52.6	4.4	10.9	0.32	17.2	3.0	1.17
10 XIJI	48.7	1.6	32.1	17.4	0.25	20.3	2.0	1.09
11 XIML	21.8	71.1	3.7	3.1	0.22	17.1	2.8	1.20
12 XIID	28.6	52.1	10.5	8.6	0.19	17.2	2.7	1.22
Index								
IDX80	30.4	40.7	17.8	11.1		16.3	2.5	
JCI	29.8	39.8	21.4	9.0		15.8	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

PT Indo Premier Investment Management

Telp. 021-57931260

Fund Sales Team

Noviono Darmosusilo	Director	noviono.d@ipc.co.id	ext	170	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	ext	560	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	ext	620	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	ext	625	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	ext	136	0857-9494-5058

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