

Fed raised GDP & inflation forecasts, now project two rate hikes in 2023

Global stock markets corrected, particularly in the US, after Fed's June 15-16 meeting that Fed Chair Powell acknowledged policymakers have begun talking about slowing bond purchases (tapering), albeit without mentioning a potential timeline, as the progress in vaccinations allowed US economic recovery to gain strength. Projections released after the Fed meeting showed consensus among FOMC members for two rate hikes by the end of 2023, which is a faster pace of tightening than expected during previous meeting in March. For 2021, US GDP projection is raised to 7.0% (from 6.5%), PCE inflation to 3.4% (from 2.4%), while unemployment rate is kept at 4.5%. Fed reiterated that high inflation is transitory and PCE inflation will likely decline to 2.1% in 2022 (previous: 2.0%) but Fed acknowledged risks to inflation forecasts are now weighted to upside. US stock markets declined modestly post Fed meeting but tumbled deeper on Friday, when Fed President Bullard said he expects the first rate hike to happen in late 2022. US economic data released during the week showed a weaker May retail sales (-1.3% MoM) and higher weekly jobless claims of 412K (prev: 375K). Meanwhile, 10-yr UST yields rose to 1.57% after the Fed meeting but ended the week nearly unchanged at 1.44%.

In Indonesia, JCI corrected 1.45%, as foreign inflows reversed to small outflows (Rp61.5Bn) with equally small bond market outflows (Rp134Bn). However, share price corrections are steeper for big-cap stocks in banking, auto, consumer and telecom sectors, while construction, metals mining and property are among the smaller cap stocks hit hardest by market selloffs.

The Week Ahead – Fed Chair Powell Testimony, Markit PMIs for US & EU

The key economic calendar to watch out next week are US Existing Home Sales (Tue 21:00), Fed Chair Powell Testimony (Wed 01:00), Markit Manufacturing & Services PMI data for EU/US (Wed 15:00/21:00), US Durable Goods Order, Initial Jobless Claims (Thu 19:30), US Personal Income & Spending, US PCE Price Index (Fri 19:30)

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets this year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected (unlike in 2013), Indonesia country risk indicators have improved, and its bond market is now more resilient. We reiterate our 2021 JCI target of 6,600

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. XIPI has managed to closely follow JCI performances in 2021 and outperformed other broad-based ETFs due to its overweight of cyclicals, including in banking & basic materials sectors, and 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 XIML (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 14.8x and 14.1x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.6x), XIIT (at 16.3x), XIML (at 15.7x) and XIPI (at 18.1x), 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	33,290.08	-3.45%	8.77%
S&P 500	4,166.45	-1.91%	10.93%
Nasdaq	14,030.38	-0.28%	8.86%
FTSE 100	7,017.47	-1.63%	8.62%
DAX	15,448.04	-1.56%	12.61%
Nikkei 225	28,964.08	0.05%	5.54%
Hang Seng	28,801.27	-0.14%	5.77%
Shanghai	3,525.10	-1.80%	1.50%
EIDO	20.69	-7.01%	-11.66%

JCI Sector Indices	Last	1W	YTD
Technology	10,852.93	33.92%	874.42%
Basic Materials	1,168.14	0.12%	-5.26%
Infrastructures	930.555	-0.47%	7.90%
Property & Real Estate	789.939	-1.19%	-17.34%
JCI	6,007.12	-1.45%	+0.47%
Industrials	963.45	-2.09%	3.72%
Financials	1,332.92	-2.15%	5.75%
Healthcare	1,238.40	-2.39%	-5.49%
Consumer Cyclical	735.95	-2.99%	-0.94%
Energy	741.56	-3.42%	-5.28%
Consumer Non-Cyclical	689.47	-4.79%	-12.84%
Transportation	1016.989	-5.62%	6.68%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.25	11 bps	13 bps
UST 10Y Yield	1.44	-1 bps	53 bps
Ind GB 10Y Yield	6.56	21 bps	68 bps
USDIDR	14,403	214	353
CDS Indo 5Y	73.72	1.03	6.21

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-61.47Bn	+5.54Tn
Government Bond Market(Rp)	-134Bn	+7.30Tn

Commodities	Last	1W	YTD
WTI	71.64	1.75%	47.65%
Brent	73.51	1.17%	41.91%
CPO (Malaysia)	3,377.00	-7.81%	9.82%
Coal (New Castle)	125.00	-1.57%	55.28%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	916.52	-4.09%	-5.96%
XIIT	IDX30	485.15	-4.31%	-6.42%
XIJI	JII	571.57	-2.13%	-10.67%
XISI	SMInfra18	320.84	-3.15%	-3.35%
XISR	SriKehati	342.94	-4.71%	-9.58%
XIHD	IDXHIDIV20	433.50	-4.26%	-5.63%
XIPI	Pefindo I-Grade	164.06	-3.44%	-4.88%
XIML	MSCI Indo Large Cap	233.73	-4.70%	-7.92%
XIID	IDX30	470.35	-4.24%	-6.60%
XIFE	FTSE ESG Indonesia	92.68	-4.58%	-
XIIC	Consumer Related	908.19	-4.88%	-12.20%
XIIF	Rate Sensitive	499.90	-5.86%	-15.07%
XISC	BUMN Stocks	655.82	-6.79%	-14.09%
XISB	Sovereign Bonds	436.90	-0.77%	-2.07%

Conventional	Last	1W	YTD	
RDMP	Equity	902.09	-4.93%	-14.67%
RPCF	Balanced	2,659.12	-3.72%	-10.93%
RDPU 2	Money Market	1,310.46	0.07%	2.02%

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	27.0	48.4	14.1	9.4	1.05	16.6	2.8	1.12
2 XIIT	29.0	50.9	9.7	9.3	1.09	16.3	3.0	1.17
3 XISC	19.2	34.2	19.3	16.3	10.98	14.1	3.4	1.27
4 XISR	24.9	64.5	4.8	4.7	1.13	16.0	2.9	1.15
5 XIIF	12.9	49.4	35.6	0.0	2.06	16.0	2.8	1.23
6 XISI	48.1	14.2	19.4	16.9	1.43	14.8	3.3	1.13
7 XIPI	18.4	59.4	15.2	6.0	1.03	18.1	2.3	1.19
8 XIIC	33.8	41.5	19.6	3.4	1.84	16.3	3.2	1.10
9 XIHD	31.4	51.1	4.4	11.4	1.63	15.7	3.3	1.15
10 XIJI	47.3	1.2	31.0	17.6	2.84	19.1	2.4	1.09
11 XIIML	19.4	72.2	4.1	3.3	0.95	15.7	3.1	1.16
12 XIID	28.9	50.9	9.8	9.2	1.19	16.4	3.0	1.10
13 XIFE	31.5	55.3	6.0	6.2	1.12	15.9	3.0	1.16
Index								
IDX80	31.0	39.6	18.0	11.4		15.2	2.7	
JCI	30.8	38.9	21.2	9.1		18.0	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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