

FOMC Minutes reveal taper discussion during April 27-28 meeting

Global markets ended mixed after major stock indices fell on Wednesday, for the third day in a row, following release of April FOMC Minutes amid anxiety caused by dramatic volatility in the cryptocurrencies. However, stocks partially recovered as jobless claims fell to new post-pandemic low while PMI readings highlight the strength in US economy. The FOMC Minutes revealed a number of participants suggested Fed to begin discussing plan for tapering its monthly asset purchases of \$120Bn. On inflation, members acknowledged potential for inflation to run above the 2% target due to transitory supply chain bottlenecks but longer-term inflation expectations remain in line with Fed's goals. On the economic data, US weekly jobless claims of 444K was a drop from 478K in prior week, slightly better than consensus. US Markit Manufacturing & Services PMIs jumped to new highs of 61.5 and 70.1 in May, respectively, well above market expectations and it points to sharpest pace of services activity expansions since data collection began in 2009. EU PMI readings were also better than expected. Meanwhile, 10-yr UST yields were little changed at 1.62%, despite initial rise to 1.68% following release of the FOMC Minutes, while oil prices weakened on the prospect of more supply entering the market from Iran.

In Indonesia, JCI dropped 2.78% amid small foreign outflows (Rp139Bn) while bond market saw more massive outflows of Rp11.8Tn amid inflation fears and the Fed's taper discussion. Nearly all major stocks fell significantly, except in the telecommunication sector, with metals mining, property, construction and basic industries sectors corrected the most.

The Week Ahead – BI Decision, US Personal Spending & PCE Price Index

The key economic calendar to watch out for next week includes BI Interest Rate Decision (Tue 14:30), US New Home Sales (Tue 21:00), US Initial Jobless Claims and Durable Goods Orders (Thu 19:30), US Personal Income and Spending, and PCE Price Index (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 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 given US inflation risks and Fed's tightening bias (eg. taper of bond purchases).

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 14.5x and 14.0x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.7x), XIIT (at 16.3x), XIIML (at 15.8x) 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	34,207.84	-0.51%	11.77%
S&P 500	4,155.86	-0.43%	10.64%
Nasdaq	13,470.99	0.31%	4.52%
FTSE 100	7,018.05	-0.36%	8.63%
DAX	15,437.51	0.14%	12.53%
Nikkei 225	28,317.83	0.83%	3.18%
Hang Seng	28,458.44	1.54%	4.51%
Shanghai	3,486.56	-0.11%	0.39%
EIDO	21.00	-3.58%	-10.33%

JCI Sector Indices	Last	1W	YTD
Technology	3,481.43	5.27%	212.58%
Transportation	1,081.68	2.76%	13.48%
Infrastructures	878.75	0.95%	1.89%
Industrials	934.13	0.22%	0.46%
Consumer Cyclical	725.32	-1.05%	-2.36%
Healthcare	1,267.19	-1.36%	-3.29%
Energy	734.55	-1.92%	-6.17%
Consumer Non-Cyclicals	715.70	-2.63%	-9.53%
JCI	5,773.12	-2.78%	-3.44%
Financials	1,278.32	-3.28%	1.42%
Property & Real Estate	823.08	-5.17%	-13.88%
Basic Materials	1,139.60	-7.84%	-7.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	1 bps	3 bps
UST 10Y Yield	1.62	-1 bps	71 bps
Ind GB 10Y Yield	6.46	3 bps	57 bps
USDIDR	14,355	157	305
CDS Indo 5Y	78.93	1.53	11.42

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-139.07Bn	+1.88Tn
Government Bond Market (Rp)	-11.79Tn	-20.59Tn

Commodities	Last	1W	YTD
WTI	63.85	-2.33%	31.60%
Brent	66.44	-3.30%	28.26%
CPO (Malaysia)	4,049.00	-1.84%	31.67%
Coal (New Castle)	101.00	2.02%	25.47%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	903.97	-2.82%	-7.25%
XIIT	IDX30	477.37	-2.48%	-7.92%
XIJI	JII	561.02	-3.78%	-12.32%
XISI	SMInfra18	306.56	-2.03%	-7.66%
XISR	Sri Kehati	343.36	-2.02%	-9.47%
XIHD	IDXHIDIV20	425.00	-1.41%	-7.49%
XIPI	Pefindo I-Grade	161.19	-2.94%	-6.55%
XIIML	MSCI Indo Large Cap	232.41	-1.80%	-8.44%
XIID	IDX30	462.68	-2.50%	-8.13%
XIFE	FTSE Indo ESG	92.45	-1.89%	-
XIIC	Consumer Related	919.69	-2.50%	-11.09%
XIIF	Rate Sensitive	512.58	-4.26%	-12.92%
XISC	BUMN Stocks	659.59	-5.74%	-13.60%
XISB	Sovereign Bonds	435.07	-0.06%	-2.48%
<i>Conventional</i>				
RDMP	Equity	904.06	-2.51%	-14.48%
RPCF	Balanced	2,649.70	-1.87%	-11.25%
RDP2	Money Market	1,306.55	0.12%	1.71%

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	27.3	48.4	14.6	9.1	0.57	16.7	2.8	1.12
2 XIIT	29.3	51.0	10.3	8.9	0.59	16.3	3.0	1.17
3 XISC	20.5	34.4	20.1	17.2	7.86	14.0	3.5	1.27
4 XISR	25.9	63.8	5.0	4.9	0.55	16.2	2.9	1.15
5 XIIF	12.1	49.0	38.1	0.0	0.79	16.0	2.8	1.23
6 XISI	47.1	14.3	20.7	17.3	0.48	14.5	3.4	1.13
7 XIPI	18.8	59.8	14.9	6.1	0.43	18.2	2.4	1.19
8 XIIC	34.5	41.2	20.8	2.9	0.65	16.4	3.1	1.10
9 XIHD	32.4	51.0	4.7	10.9	0.95	16.0	3.3	1.15
10 XIJI	49.8	1.2	31.2	17.4	0.40	19.2	2.3	1.09
11 XIML	21.8	70.2	4.3	3.3	0.43	15.8	3.1	1.16
12 XIID	29.3	51.0	10.3	8.9	0.56	16.5	3.0	1.10
13 XIFE	32.1	54.9	6.1	6.2	0.74	16.1	3.0	1.16
Index								
IDX80	31.1	39.5	18.3	11.0		15.0	2.7	
JCI	30.9	38.8	20.8	9.5		15.6	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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