

Strong US Q1 earnings and economic data propelled stocks to new highs

US and European stocks hit an all-time high on resurgence of growth optimism, led by strong US Q1 earnings and economic data, while inflation fears receded (for now). In Asia, Korean and Taiwan stocks propelled ahead to maintain their best performing markets status while other markets lagged. This week's strong market momentum is driven by strong start to the US Q1 earnings season and above expected economic data. US retail sales grew 9.8% MoM in March (cons: 5.9%), weekly jobless claims fell to 576K (cons: 700K) while Euro area retail sales grew 3% MoM in February (cons: 1.5%). Of the 44 S&P500 companies that have reported earnings, 84% beat analyst expectations, according to Refinitive, and the estimated earnings growth for S&P500 is 30.9% in Q1 2021. Meanwhile, US inflation rate climbed to 0.6% MoM; 2.6% YoY in March, driven by rising energy prices, while core inflation rose to 0.3% MoM; 1.6% YoY – these figures were all slightly above expectations but they seemed less than feared, allowing yields to ease. The Fed's average inflation targeting also implies it will allow inflation to rise moderately above 2% for some time after periods of low inflation.

In Indonesia, JCI was flattish (+0.26%) this week amid a small foreign net sell of Rp96Bn, which was an improvement from much larger outflows in prior weeks, while bond market reversed to outflows of Rp3.6Tn. Leading the market higher were retail, telecommunication tower, cement, and small bank stocks (including BBCA, which recovered after heavy foreign selling pressures in the prior weeks), while property, construction, consumer, auto and mining stocks corrected.

The Week Ahead – BI Rate Decision, Markit PMI Data for EU and US

The key economic calendar to watch out next week include BI Interest Rate Decision (Tue 14:30), Indonesia Motorcycle Sales (Tue 17:00), ECB Interest Rate Decision (Thu 18:45), US Initial Jobless Claims (Thu 20:30), US Existing Home Sales (Thu 21:00), Markit Manufacturing & Services PMIs for EU (Fri 15:00) and US (Fri 20:45).

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	34,200.67	1.19%	11.74%
S&P 500	4,185.47	1.37%	11.43%
Nasdaq	14,052.34	1.09%	9.03%
FTSE 100	7,019.53	1.50%	8.65%
DAX	15,459.75	1.48%	12.69%
Nikkei 225	29,683.37	-0.28%	8.16%
Hang Seng	28,969.71	0.94%	6.38%
Shanghai	3,426.62	-0.70%	-1.34%
EIDO	21.95	1.29%	-6.28%

JCI Sector Indices	Last	1W	YTD
JAKAGRI	1,533.98	6.52%	2.41%
JAKTRAD	895.96	1.74%	16.91%
JAKINFR	1,055.63	1.04%	5.46%
JAKBIND	971.20	0.81%	5.45%
JAKFIN	1,401.48	0.67%	5.12%
JCI	6,086.26	0.26%	1.79%
JAKMINE	1,800.93	-0.09%	-5.98%
JAKMIND	994.92	-0.11%	-7.97%
JAKCONS	1,659.12	-2.02%	-9.44%
JAKPROP	346.45	-3.77%	-12.71%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0 bps	4 bps
UST 10Y Yield	1.58	-9 bps	67 bps
Ind GB 10Y Yield	6.51	6 bps	62 bps
USDIDR	14,592	27	542
CDS Indo 5Y	80.66	-4.40	13.15

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-96.47 Bn	+2.19 Tn
Government Bond Market (Rp)	-3.59 Tn	-20.15 Tn

Commodities	Last	1W	YTD
WTI	63.13	6.51%	30.11%
Brent	66.77	6.49%	28.90%
CPO (Malaysia)	3,807.00	0.11%	16.60%
Coal (New Castle)	94.30	1.40%	17.14%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	954.08	0.17%	-2.11%
XIIT	IDX30	503.13	0.31%	-2.95%
XIJI	JII	609.11	-0.45%	-4.80%
XISI	SMInfra18	315.77	-0.12%	-4.88%
XISR	Sri Kehati	360.51	-0.64%	-4.95%
XIHD	IDXHIDIV20	446.20	-0.44%	-2.87%
XIPI	Pefindo I-Grade	172.18	-0.39%	-0.17%
XIIML	MSCI Indo Large Cap	246.07	0.12%	-3.06%
XIID	IDX30	487.94	0.30%	-3.11%
XIFE	FTSE Indo ESG	96.77	-0.51%	-
XIIC	Consumer Related	983.75	-0.58%	-4.89%
XIIF	Rate Sensitive	543.36	-2.42%	-7.62%
XISC	BUMN Stocks	705.19	-2.26%	-7.62%
XISB	Sovereign Bonds	429.26	-0.28%	-3.78%
<i>Conventional</i>				
RDMP	Equity	958.72	-1.92%	-9.31%
RPCF	Balanced	2,757.67	-1.28%	-7.63%
RDP2	Money Market	1,301.22	0.08%	1.30%

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	48.5	15.7	8.3	0.66	17.1	2.6	1.12
2 XIIT	28.9	51.2	11.0	8.2	0.69	16.5	2.9	1.17
3 XISC	20.1	35.8	23.0	16.4	4.66	15.2	3.2	1.27
4 XISR	25.9	63.5	5.1	4.4	0.99	17.1	2.7	1.15
5 XIIF	11.6	49.7	37.7	0.0	0.94	16.7	2.7	1.23
6 XISI	47.9	15.7	21.9	13.5	1.01	15.9	3.1	1.13
7 XIPI	17.9	59.3	16.4	5.4	1.00	18.9	2.2	1.19
8 XIIC	33.9	41.2	21.1	0.0	3.74	17.3	3.0	1.10
9 XIHD	31.2	51.9	5.1	10.6	1.28	16.8	3.1	1.15
10 XIJI	48.8	1.2	33.8	16.0	0.17	19.2	2.1	1.09
11 XIML	21.5	69.4	4.8	3.1	1.16	16.7	3.0	1.16
12 XIID	28.9	51.2	11.0	8.2	0.70	16.6	2.9	1.10
13 XIFE	31.8	54.7	6.4	5.9	1.15	16.7	2.8	1.16
Index								
IDX80	30.7	40.3	18.6	10.3		15.9	2.6	
JCI	30.4	38.2	22.7	8.7		16.5	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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