

Biden's proposed tax hike and rising global infections weighed on stocks

Global equities markets eased this week, after climbing to record highs in prior week, as US stocks were rattled by Biden's proposal to hike capital gains tax to 39.6% (from 20%) for those earnings over \$1 million, but then recovered as it is viewed that negotiations in Congress would likely make any final tax increase to be lower than what Biden initially proposes. Elsewhere in Europe and Asia, stock markets slumped on rising Covid concerns as global infection rates jumped to all-time highs, driven by a surge in developing countries, particularly India and Brazil, which led to several countries imposing new travel restrictions and Japan declaring a third state of emergency in the Tokyo and Osaka areas. The market corrections were despite strong US Q1 earnings season (85% beat estimates) and jobless claims (547K vs. 695K cons.) and still expanding manufacturing and services PMIs in US and Euro Area. Meanwhile, bond yields have stabilised with 10-yr UST yields remaining at below 1.6% (vs. 1.75% peak in March) although inflation will likely remain a key issue in the week ahead as US releases March PCE Price Index data, which is a key inflation metric used by the Fed.

In Indonesia, JCI fell 1.14% this week amid sustained foreign outflows (Rp1Tn) while bond market gained significant inflows of Rp6.52Tn - the highest foreign net buy over the past three months. A rebound in auto and plantation sectors were not enough to offset falling share prices in basic industries (pulp & paper, cement, poultry etc.), retail trade, telecom, infrastructure, tobacco and banking sectors.

The Week Ahead – Fed Meeting, US & EU GDP Growth, US PCE Price Index

The key economic calendar to watch out next week includes US Durable Goods Orders (Mon 19:30), Fed Interest Rate Decision (Thu 01:00), US GDP Growth Rate, Initial Jobless Claims (Thu 19:30) and Pending Home Sales (Thu 21:00), China NBS Manufacturing/Services PMI (Fri 08:00), EU GDP Growth and Inflation Rates (Fri 16:00), US Personal Income & Spending, 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 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 BBBCA, 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 BBBCA. 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 BBBCA 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 15.6x and 14.8x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.9x), XIIT (at 16.4x), XIIML (at 16.6x) and XIPI (at 18.5x), 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	34,043.49	-0.46%	11.23%
S&P 500	4,180.17	-0.13%	11.29%
Nasdaq	14,016.81	-0.25%	8.76%
FTSE 100	6,938.56	-1.15%	7.40%
DAX	15,279.62	-1.17%	11.38%
Nikkei 225	29,020.63	-2.23%	5.74%
Hang Seng	29,078.75	0.38%	6.78%
Shanghai	3,474.17	1.39%	0.03%
EIDO	21.94	-0.05%	-6.32%

JCI Sector Indices	Last	1W	YTD
JAKMIND	1,055.96	6.14%	-2.32%
JAKAGRI	1,576.78	2.79%	5.26%
JAKPROP	345.48	-0.28%	-12.95%
JAKMINE	1,783.52	-0.97%	-6.89%
JCI	6,016.86	-1.14%	0.63%
JAKFIN	1,382.92	-1.32%	3.73%
JAKCONS	1,635.46	-1.43%	-10.73%
JAKINFR	1,039.69	-1.51%	3.86%
JAKTRAD	880.93	-1.68%	14.95%
JAKBIND	941.34	-3.07%	2.21%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0 bps	4 bps
UST 10Y Yield	1.56	-2 bps	65 bps
Ind GB 10Y Yield	6.44	-6 bps	55 bps
USDIDR	14,525	-40	475
CDS Indo 5Y	78.72	-1.08	11.21

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.09 Tn	+1.14 Tn
Government Bond Market (Rp)	+6.52 Tn	-14.58 Tn

Commodities	Last	1W	YTD
WTI	62.04	-1.73%	27.86%
Brent	66.11	-2.11%	26.18%
CPO (Malaysia)	3,958.00	6.51%	21.23%
Coal (New Castle)	93.95	-0.37%	16.71%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	949.02	-0.53%	-2.63%
XIIT	IDX30	500.75	-0.47%	-3.41%
XIJI	JII	596.11	-2.13%	-6.83%
XISI	SMInfra18	314.84	-0.29%	-5.16%
XISR	Sri Kehati	359.45	-0.29%	-5.23%
XIHD	IDXHIDIV20	443.94	-0.51%	-3.36%
XIPI	Pefindo I-Grade	169.69	-1.45%	-1.62%
XIIML	MSCI Indo Large Cap	245.60	-0.19%	-3.25%
XIID	IDX30	485.58	-0.48%	-3.58%
XIFE	FTSE Indo ESG	96.24	-0.55%	-
XIIC	Consumer Related	977.71	-0.61%	-5.48%
XIIF	Rate Sensitive	545.44	0.38%	-7.33%
XISC	BUMN Stocks	701.36	-0.54%	-8.13%
XISB	Sovereign Bonds	431.62	0.55%	-3.25%
<i>Conventional</i>				
RDMP	Equity	954.38	-0.45%	-9.72%
RPCF	Balanced	2,742.14	-0.56%	-8.15%
RDP2U	Money Market	1,302.30	0.08%	1.38%

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	26.8	48.9	15.4	8.1	0.70	16.9	2.6	1.12
2 XIIT	28.8	51.7	10.8	8.0	0.74	16.4	2.9	1.17
3 XISC	20.1	35.5	21.7	16.3	6.33	14.8	3.3	1.27
4 XISR	25.6	64.0	5.1	4.3	1.02	16.9	2.7	1.15
5 XIIF	11.4	49.7	38.0	0.0	0.87	16.7	2.7	1.23
6 XISI	48.1	15.4	21.8	13.5	1.22	15.6	3.1	1.13
7 XIPI	17.9	59.7	16.1	5.3	1.04	18.5	2.2	1.19
8 XIIC	33.6	41.5	21.1	0.0	3.70	17.1	3.0	1.10
9 XIHD	31.0	52.1	5.0	10.6	1.34	16.7	3.1	1.15
10 XIJI	49.0	1.4	33.5	15.9	0.24	18.6	2.2	1.09
11 XIIML	21.1	69.9	4.8	3.1	1.18	16.6	3.0	1.16
12 XIID	28.8	51.7	10.8	8.0	0.74	16.5	2.9	1.10
13 XIFE	31.5	55.3	6.2	5.9	1.19	16.5	2.9	1.16
Index								
IDX80	30.7	40.8	18.3	10.1		15.8	2.6	
JCI	31.0	39.1	21.3	8.6		16.2	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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