

Stocks boosted by lower US inflation & jobless claims, fiscal relief passage

Global equities were on a solid rebound this week as optimism over economic recovery fueled stock market rally amid passage of a massive US fiscal stimulus. Meanwhile, inflation fears, which have led to a strong uptrend in bond yields since February, seem to have abated as yields took a brief respite on the back of a lower-than-expected US inflation and reassuring statements from several central banks. US core inflation of 0.1% MoM (1.3% YoY) in February was below consensus expectations of 0.2%/1.4%, respectively, while core producer prices rose 0.2% MoM, in-line with expectations but it was well below January's 1.2% jump. Meanwhile, ECB stated it will significantly increase its purchases of bonds under pandemic quantitative easing program while long-term inflation outlook remains subdued. However, in spite of this, 10-yr US Treasury yields closed the week higher at 1.63% after a three-day retreat which led to the stock market rebound. Other economic data releases reported lower US initial jobless claims of 712k (cons: 725k), stronger than expected EU industrial production of 0.8% MoM in January (cons: 0.2%), and improving US Michigan Consumer Sentiment of 83.0 (previous: 76.8).

In Indonesia, JCI gained 1.59% despite increasing foreign outflows of Rp1.4Tn while bond market sustained heavy outflows of Rp6.9Tn (prior week: Rp7.8Tn), reflecting renewed inflation fears globally. Leading the market higher continued to be small cap stocks, particularly in basic industries, property, infrastructure sectors, while metals mining and construction stocks were dragged by profit takings after recent outperformances.

The Week Ahead – Indonesia Trade Balance, Fed & BI Rate Decision

The key economic calendar to watch out for next week are Indonesia Trade Balance (Mon 11:00), US Retail Sales & Industrial Production (Tue 19:30/20:15), US Housing Starts (Wed 19:30), Fed Interest Rate Decision & FOMC Economic Projections (Thu 01:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 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 inflation fears, 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 such as 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 track JCI performance so far in 2021, well outperforming other broad-based ETFs due to its overweight of cyclicals, including in basic materials sector, and its underweight of defensive stocks in portfolio. As such, XIPI is exposed to sectors that should benefit the most from economic recovery while maintaining defensiveness through exposure in BBCA. Meanwhile, Environmental, Social & Governance (ESG) ETFs globally saw record inflows in 2020 amid the pandemic and we expect the trend of investing in ESG funds to continue in coming years.

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 16.2x and 15.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.9x), XIIT (at 17.2x), XIIM (at 17.2x) and XIPI (at 19.7x), 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 | 32,778.64 | 4.07% | 7.10% |
| S&P 500 | 3,943.34 | 2.64% | 4.99% |
| Nasdaq | 13,319.87 | 3.09% | 3.35% |
| FTSE 100 | 6,761.47 | 1.97% | 4.66% |
| DAX | 14,502.39 | 4.18% | 5.71% |
| Nikkei 225 | 29,717.83 | 2.96% | 8.28% |
| Hang Seng | 28,739.72 | -1.23% | 5.54% |
| Shanghai | 3,453.08 | -1.40% | -0.58% |
| EIDO | 23.04 | 0.57% | -1.62% |

| JCI Sector Indices | Last | 1W | YTD |
|--------------------|-----------------|--------------|--------------|
| JAKBIND | 992.71 | 5.96% | 7.79% |
| JAKAGRI | 1,504.94 | 5.43% | 0.47% |
| JAKPROP | 404.06 | 3.66% | 1.81% |
| JAKINFR | 1,074.00 | 3.55% | 7.29% |
| JCI | 6,358.21 | 1.59% | 6.34% |
| JAKFIN | 1,510.79 | 0.91% | 13.32% |
| JAKCONS | 1,719.47 | 0.30% | -6.15% |
| JAKTRAD | 857.28 | 0.14% | 11.86% |
| JAKMIND | 1,015.34 | -0.40% | -6.08% |
| JAKMINE | 1,891.98 | -0.52% | -1.23% |

| Rates and Bonds | Last | 1W | YTD |
|------------------|--------|-------|--------|
| UST 2Y Yield | 0.15 | 1 bps | 3 bps |
| UST 10Y Yield | 1.63 | 6 bps | 71 bps |
| Ind GB 10Y Yield | 6.72 | 3 bps | 83 bps |
| USDIDR | 14,385 | 85 | 335 |
| CDS Indo 5Y | 80.70 | 1.55 | 13.19 |

| Foreign Fund Flows | 1W | YTD |
|-----------------------------|----------|-----------|
| Equity Regular Market (Rp) | -1.40 Tn | +6.40 Tn |
| Government Bond Market (Rp) | -6.87 Tn | -16.62 Tn |

| Commodities | Last | 1W | YTD |
|-------------------|----------|--------|--------|
| WTI | 65.61 | -0.20% | 35.94% |
| Brent | 69.22 | -0.20% | 33.63% |
| CPO (Malaysia) | 4,116.00 | 10.02% | 22.32% |
| Coal (New Castle) | 89.00 | 1.42% | 10.56% |

| Funds and ETFs | Last | 1W | YTD | |
|---------------------|---------------------|----------|--------|--------|
| <i>ETF</i> | <i>Theme</i> | | | |
| RLQ45 | LQ45 | 990.02 | 1.00% | 1.58% |
| XIIT | IDX30 | 521.64 | 0.75% | 0.62% |
| XIJI | JII | 632.68 | 2.50% | -1.12% |
| XISI | SMInfra18 | 329.42 | 1.27% | -0.77% |
| XISR | Sri Kehati | 377.19 | -0.07% | -0.55% |
| XIHD | IDXHIDIV20 | 461.83 | 1.02% | 0.53% |
| XIPI | Pefindo I-Grade | 181.06 | 1.38% | 4.98% |
| XIIML | MSCI Indo Large Cap | 253.95 | 0.03% | 0.04% |
| XIID | IDX30 | 506.22 | 0.73% | 0.52% |
| XIIC | Consumer Related | 1,019.31 | 1.40% | -1.45% |
| XIIF | Rate Sensitive | 598.09 | 1.71% | 1.61% |
| XISC | BUMN Stocks | 781.39 | 0.82% | 2.36% |
| XISB | Sovereign Bonds | 426.23 | -0.52% | -4.46% |
| <i>Conventional</i> | | | | |
| RDMP | Equity | 1,014.45 | 0.52% | -4.04% |
| RPCF | Balanced | 2,879.19 | 0.22% | -3.56% |
| RDP2 | Money Market | 1,296.14 | 0.08% | 0.90% |

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 | 26.5 | 49.6 | 15.7 | 8.1 | 0.09 | 17.9 | 2.5 | 1.12 |
| 2 XIIT | 28.4 | 52.4 | 11.1 | 8.0 | 0.07 | 17.2 | 2.7 | 1.17 |
| 3 XISC | 19.6 | 35.5 | 25.9 | 18.4 | 0.58 | 15.7 | 3.0 | 1.27 |
| 4 XISR | 25.7 | 64.6 | 5.2 | 4.2 | 0.20 | 17.7 | 2.6 | 1.15 |
| 5 XIIF | 11.0 | 48.8 | 39.7 | 0.0 | 0.51 | 17.5 | 2.5 | 1.23 |
| 6 XISI | 44.7 | 17.0 | 24.9 | 13.3 | 0.16 | 16.2 | 2.9 | 1.13 |
| 7 XIPI | 17.7 | 59.6 | 17.2 | 5.4 | 0.08 | 19.7 | 2.1 | 1.19 |
| 8 XIIC | 33.1 | 42.8 | 20.9 | 0.0 | 3.21 | 17.8 | 2.9 | 1.10 |
| 9 XIHD | 31.4 | 53.1 | 4.6 | 10.6 | 0.26 | 17.4 | 2.9 | 1.15 |
| 10 XIJI | 48.5 | 1.5 | 34.1 | 15.8 | 0.19 | 20.0 | 2.1 | 1.09 |
| 11 XIIML | 21.3 | 71.6 | 4.1 | 2.9 | 0.11 | 17.2 | 2.8 | 1.16 |
| 12 XIID | 28.4 | 52.4 | 11.1 | 8.0 | 0.14 | 17.3 | 2.7 | 1.10 |
| Index | | | | | | | | |
| IDX80 | 30.1 | 41.0 | 18.8 | 10.2 | | 16.5 | 2.4 | |
| JCI | 29.6 | 39.4 | 22.4 | 8.5 | | 16.7 | 1.7 | |

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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