

Biden's budget proposal spur growth hopes as inflation fears subsided

Global stock markets resumed gains as inflation worries seem to have subsided while Joe Biden's budget proposal and his infrastructure spending negotiations spur growth hopes. The President's first full budget proposals of US\$6 trillion in next fiscal year would ramp up spending and raise taxes on corporations and the wealthiest Americans. Meanwhile, Republicans have unveiled a \$928 billion counteroffer to Biden's \$1.7 trillion infrastructure spending plan. Global bond yields eased as 10-yr UST yield fell 5bps to 1.58% despite April's high inflation readings as also reflected in PCE Price Index's growth (0.6% MoM; 3.6% YoY). Meanwhile, US economic data was mixed with jobless claims falling to a new pandemic low of 406K (cons: 425K) and durable goods order ex transportation growing at 1% MoM in April (vs. 0.8% cons.). On the other hand, both new and pending home sales fell by 5.9% and 4.4% MoM, respectively, while the overall durable goods order declined by 1.3% MoM in April, which was well below consensus expectation of 0.7% growth.

In Indonesia, JCI gained 1.31% amid returning foreign inflows (Rp730Bn) as also seen in bond market (Rp1.64Tn) on the back of subsiding inflation fears. The JCI's gain was driven select major stocks in the poultry, metals and coal mining, consumer, automotive and banking sectors.

The Week Ahead – China-US-Indonesia PMI data, US Non Farm Payrolls

The key economic calendar to watch out for next week are China NBS/Caixin Manufacturing PMIs (Mon 08:00/Tue 08:45) EU Inflation Rate (Tue 16:00), US ISM Manufacturing PMI (Tue 21:00), Indonesia Manufacturing PMI (Wed 07:30) and Inflation Rate (Wed 11:00), US ADP Employment Change (Thu 19:15), US Initial Jobless Claims (Thu 19:30), US ISM Non-Manufacturing PMI (Thu 21:00), EU Retail Sales (Fri 16:00), Fed Chair Powell Speech (Fri 18:00), US Non Farm Payrolls and Unemployment Rate (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 BBKA, 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 cyclical, 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 BBKA. 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 BBKA 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 14.7x and 14.2x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 16.5x), XIIML (at 15.9x) 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	34,529.45	0.94%	12.82%
S&P 500	4,204.11	1.16%	11.93%
Nasdaq	13,748.74	2.06%	6.68%
FTSE 100	7,022.61	0.06%	8.70%
DAX	15,519.98	0.53%	13.13%
Nikkei 225	29,149.41	2.94%	6.21%
Hang Seng	29,124.41	2.34%	6.95%
Shanghai	3,600.78	3.28%	3.68%
EIDO	21.36	1.71%	-8.80%

JCI Sector Indices	Last	1W	YTD
Industrials	958.248	2.58%	3.16%
Financials	1305.227	2.10%	3.55%
Consumer Non-Cyclicals	725.845	1.42%	-8.24%
Consumer Cyclicals	734.825	1.31%	-1.08%
JCI	5848.616	1.31%	-2.18%
Energy	742.313	1.06%	-5.18%
Infrastructures	882.169	0.39%	2.29%
Technology	3491.105	0.28%	213.45%
Basic Materials	1142.192	0.23%	-7.36%
Healthcare	1261.613	-0.44%	-3.72%
Property & Real Estate	813.261	-1.19%	-14.91%
Transportation	1037.935	-4.04%	8.88%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	-1 bps	2 bps
UST 10Y Yield	1.58	-4 bps	67 bps
Ind GB 10Y Yield	6.43	-4 bps	54 bps
USDIDR	14,285	-70	235
CDS Indo 5Y	76.60	-0.80	9.09

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+730.6Bn	+2.62Tn
Government Bond Market (Rp)	+1.64Tn	-19.47Tn

Commodities	Last	1W	YTD
WTI	66.32	4.31%	36.69%
Brent	68.72	3.43%	32.66%
CPO (Malaysia)	3,916.00	-1.88%	27.35%
Coal (New Castle)	118.90	17.72%	47.70%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	912.66	0.96%	-6.36%
XIIT	IDX30	482.27	1.03%	-6.97%
XIJI	JII	565.01	0.71%	-11.69%
XISI	SMInfra18	308.50	0.63%	-7.07%
XISR	Sri Kehati	346.52	0.92%	-8.64%
XIHD	IDXHIDIV20	428.11	0.73%	-6.81%
XIPI	Pefindo I-Grade	162.36	0.73%	-5.86%
XIIML	MSCI Indo Large Cap	234.91	1.07%	-7.46%
XIID	IDX30	467.37	1.01%	-7.19%
XIFE	FTSE Indo ESG	93.27	0.89%	-
XIIC	Consumer Related	927.39	0.84%	-10.34%
XIIF	Rate Sensitive	515.93	0.65%	-12.35%
XISC	BUMN Stocks	670.16	1.60%	-12.21%
XISB	Sovereign Bonds	435.55	0.11%	-2.37%
<i>Conventional</i>				
RDMP	Equity	910.38	0.70%	-13.89%
RPCF	Balanced	2,669.76	0.76%	-10.58%
RDP2U	Money Market	1,307.59	0.08%	1.79%

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. Cyclicals	Commodities	Cash	2021F	2021F	
1 RLQ45	27.0	49.1	14.6	9.2	0.22	16.8	2.8	1.12
2 XIIT	29.0	51.6	10.2	8.9	0.17	16.5	3.0	1.17
3 XISC	19.8	35.0	19.8	17.1	8.28	14.2	3.4	1.27
4 XISR	25.8	64.4	4.9	4.7	0.22	16.3	2.8	1.15
5 XIIF	12.1	49.6	37.5	0.0	0.72	16.1	2.8	1.23
6 XISI	46.8	14.9	20.8	17.0	0.46	14.7	3.3	1.13
7 XIPI	18.5	60.4	14.6	6.1	0.40	18.1	2.4	1.19
8 XIIC	34.2	41.6	20.7	3.0	0.55	16.6	3.1	1.10
9 XIHD	31.8	51.6	4.8	10.9	0.91	16.1	3.2	1.15
10 XIJI	50.0	1.2	31.0	17.6	0.37	19.3	2.3	1.09
11 XIIML	20.4	71.4	4.5	3.3	0.46	15.9	3.1	1.16
12 XIID	28.9	51.5	10.2	8.9	0.52	16.6	3.0	1.10
13 XIFE	31.9	55.3	6.0	6.1	0.71	16.2	3.0	1.16
Index								
IDX80	30.9	39.7	18.3	11.1		15.3	2.7	
JCI	31.3	38.9	20.4	9.5		17.8	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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