

Inflation fears return, yields surged due to growing reflation expectations

The two weeks rise in global markets was halted as several major stock indices, mostly outside Asia, were corrected this week as growing reflation expectations and rising commodity prices led to a return of inflation fears, pushing yields up. 10-yr yields for US Treasuries rose to 1.34%, British Gilt to 0.70%, German Bund to -0.32% - their highest levels in nearly a year - as US economic data reported strong rises in the producers' price index (+1.3% MoM) and retail sales (+5.3%) in January, which are well above consensus expectations (0.4% and 1.1% MoM, respectively). The surprise strength in retail sales are seen as attributed to direct payments to consumers as part of the fiscal relief package issued in December. US January industrial production growth was also well ahead of expectations, at +0.9% MoM (cons: 0.5%), thus helping elevate economic reflation expectations despite less positive data on initial jobless claims and housing starts. However, a release of FOMC Minutes showing the Fed's commitment to maintain its large asset purchase program for some time has helped limit the rise in bond yields. Meanwhile, the major stock markets in Asia continued to perform better than global peers as Japan's Q4 GDP growth of 12.7% YoY beat expectations (cons: 9.5%) while Hong Kong and Shanghai stock markets returned from Lunar New Year holiday.

In Indonesia, JCI was flattish (+0.15%) this week amid continuing albeit modest foreign outflows (Rp556Bn) while bond market still attracted inflows (Rp3.66Tn) amid higher yields as Bank Indonesia decided to cut its policy rate by 25bps to 3.5%. Leading the index higher are mostly small cap stocks in trading, banking, infrastructure and mining sectors while key stocks in basic industries, consumer, auto and plantation sectors corrected.

The Week Ahead – Fed Chair Powell Testimony, US Durable Goods Order

The key economic calendar to watch out for next week includes ECB President Lagarde Speech (Mon 21:30), Fed Chair Powell Testimony (Tue 22:00), US New Home Sales (Wed 22:00), US Durable Goods Order & Initial Jobless Claims (Thu 20:30), US Pending Home Sales (Thu 22:00), US Personal Income and Spending (Fri 20:30), China NBS Manufacturing & Non-Manufacturing PMI (Sun 08:00).

Investment Conclusion

Equity markets globally have recovered strongly, pricing in V-shaped recoveries in economic growth and equity earnings in 2021, as the worst of the economic fallout from the pandemic seems largely over despite fears over new waves of infections. We expect JCI to continue with its uptrend momentum, driven by catalysts such as vaccine distribution, Omnibus Law, commodity price recovery, although we believe its valuation has priced-in earnings recovery prospects. We keep our 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending the release of Q1 2021 corporate earnings results at end of April and May.

Recommendation

We have been recommending investors to stay defensive since 2019, before the pandemic, with our broad-based ETFs RLQ45 and XIIT to minimize volatility, and ESG ETF XISR (Sri Kehati) and XIPI (Pefindo i-Grade), which have overweight positions in BBKA, which is widely considered as a defensive stock at times of uncertainty. Please note that ESG (Environmental, Social and Governance) ETFs globally saw record inflows in 2020 amid the pandemic, after a strong rise in 2019. For investors looking to benefit from market rebound, our pick is ETF XIIM (MSCI Indonesia Large Cap), whose constituents of 11 large cap stocks mostly owned by foreign investors are among most impacted by foreign selling and thus should benefit the most from market recovery. XIIM shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBKA.

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 15.9x and 15.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.0x), XIIT (at 17.3x), and XIIM (at 17.3x), and thus may continue to have more upside potential if Indonesia's stock market recovers on sustainable basis and investors continue to rotate away from defensive sectors into cyclical stocks. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	31,494.32	0.11%	2.90%
S&P 500	3,906.71	-0.71%	4.01%
Nasdaq	13,874.46	-1.57%	7.65%
FTSE 100	6,624.02	0.52%	2.53%
DAX	13,993.23	-0.40%	2.00%
Nikkei 225	30,017.92	1.69%	9.38%
Hang Seng	30,644.73	1.56%	12.54%
Shanghai	3,696.17	1.12%	6.42%
EIDO	23.61	-1.25%	0.81%

JCI Sector Indices	Last	1W	YTD
JAKTRAD	864.20	2.10%	12.76%
JAKFIN	1,444.50	1.32%	8.35%
JAKINFR	1,015.50	0.56%	1.45%
JAKMINE	2,056.87	0.26%	7.38%
JCI	6,231.93	0.15%	4.23%
JAKPROP	388.01	-0.24%	-2.24%
JAKMIND	1,039.27	-1.06%	-3.87%
JAKCONS	1,725.90	-1.65%	-5.80%
JAKAGRI	1,413.85	-1.83%	-5.61%
JAKBIND	974.62	-2.85%	5.83%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.11	0 bps	-1 bps
UST 10Y Yield	1.34	13 bps	43 bps
Ind GB 10Y Yield	6.56	34 bps	67 bps
USDIDR	14,065	92	15
CDS Indo 5Y	67.83	-5.59	0.32

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-556.20Bn	+6.84Tn
Government Bond Market (Rp)	+3.66Tn	+24.30Tn

Commodities	Last	1W	YTD
WTI	59.24	-0.39%	22.09%
Brent	62.91	0.77%	21.45%
CPO (Malaysia)	3,528.00	-0.84%	1.58%
Coal (New Castle)	85.75	-1.94%	6.52%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	991.80	-0.15%	1.76%
XIIT	IDX30	521.55	-0.16%	0.60%
XIJI	JII	637.08	-1.80%	-0.43%
XISI	SMInfra18	328.02	-0.48%	-1.19%
XISR	Sri Kehati	381.17	-0.48%	0.49%
XIHD	IDXHIDIV20	454.90	-0.50%	-0.98%
XIPI	Pefindo I-Grade	180.32	-0.56%	4.55%
XIIM	MSCI Indo Large Cap	254.99	-0.37%	0.45%
XIID	IDX30	506.30	-0.17%	0.54%
XIIC	Consumer Related	1,006.20	-0.63%	-2.72%
XIIF	Rate Sensitive	593.44	0.56%	0.82%
XISC	BUMN Stocks	795.20	-0.40%	4.17%
XISB	Sovereign Bonds	430.89	-2.31%	-3.42%
<i>Conventional</i>				
RDMP	Equity	1,018.92	-1.33%	-3.62%
RPCF	Balanced	2,900.94	-0.96%	-2.83%
RDP2	Money Market	1,292.73	0.10%	0.64%

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	25.7	50.2	15.3	8.8	0.06	18.0	2.5	1.12
2 XIIT	27.4	53.1	10.9	8.5	0.10	17.3	2.7	1.18
3 XISC	18.7	34.8	26.5	19.9	0.11	15.6	3.1	1.22
4 XISR	24.9	64.7	5.2	4.9	0.28	17.9	2.5	1.17
5 XIIF	10.6	49.6	39.6	0.0	0.22	17.3	2.5	1.22
6 XISI	43.1	17.2	25.1	14.4	0.24	15.9	3.0	1.13
7 XIPI	16.7	60.1	17.0	6.0	0.17	19.7	2.1	1.20
8 XIIC	34.5	43.8	20.0	0.0	1.75	17.8	2.9	1.10
9 XIHD	29.9	54.2	4.7	10.8	0.35	17.3	2.9	1.17
10 XIJI	47.7	1.5	33.2	17.4	0.28	20.6	2.0	1.09
11 XIML	20.5	72.3	3.7	3.2	0.26	17.3	2.8	1.20
12 XIID	27.3	53.1	10.9	8.5	0.21	17.4	2.7	1.22
Index								
IDX80	29.4	41.3	18.3	11.0		16.4	2.4	
JCI	29.8	39.9	21.7	8.6		15.7	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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