

US inflation spiked in April but Fed officials stressed the rise is temporary

Global stock markets pulled back from prior week's record highs as US inflation jumped to its highest level in nearly four decades although markets recovered towards end of the week. US headline/core inflation spiked to 0.8%/0.9% MoM (4.2%/3.0% YoY) in April, respectively, which were at least tripple of consensus estimates, due to supply shortages, manufacturing bottleneck and base effect. However, Fed views the inflation rise as transitory due to pandemic distortion, not as sign of economic overheating, and reassured markets the inflation data is still consistent with its goals and would not lead to a shift in monetary policy. Markets recovery on Thursday-Friday is helped by lower weekly jobless claims and CDC's surprise revised guidance stating that fully vaccinated people don't need to wear face masks or socially distance in most indoor/outdoor settings, which should support the US economy's continued reopening. Meanwhile, in bond market 10-yr UST yields climbed to 1.695% on Wednesday, when inflation data was announced, but retreated to 1.635% by week's end.

Indonesia's financial markets were closed for holiday for most of this week and JCI gained 0.17% amid foreign inflows (Rp364Bn), as also seen in bond market (Rp0.57Tn). The biggest gains during the two trading days were seen in pulp & paper, mining, and telecom tower sectors, while auto and industrial stocks were among biggest losers this week.

The Week Ahead – Indonesia Trade, FOMC Minutes, EU & US Markit PMIs

The key economic calendar to watch out for next week are US Housing Starts (Tue 19:30), FOMC Minutes (Thu 01:00), Indonesia Trade Balance (Thu 11:00), US Initial Jobless Claims (Thu 19:30), Markit Manufacturing & Services PMI data for EU (Fri 15:00) and US (Fri 20:45), ECB President Lagarde Speech (Fri 18:00), and US Existing Home Sales (Fri 21:00).

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 (bullish case: 7,000) given rising US inflation and Fed's tightening bias.

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 14.9x and 14.4x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.4x), XIIT (at 16.0x), XIIML (at 16.0x) and XIPI (at 18.2x), 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	34,382.13	-1.14%	12.34%
S&P 500	4,173.85	-1.39%	11.12%
Nasdaq	13,429.98	-2.34%	4.20%
FTSE 100	7,043.61	-1.21%	9.03%
DAX	15,416.64	0.11%	12.38%
Nikkei 225	28,084.47	-4.34%	2.33%
Hang Seng	28,027.57	-2.04%	2.92%
Shanghai	3,490.38	2.09%	0.50%
EIDO	21.78	-1.67%	-7.00%

JCI Sector Indices	Last	1W	YTD
Transportation	1,052.65	1.47%	10.43%
Energy	748.90	1.26%	-4.34%
Basic Materials	1,236.51	0.75%	0.29%
Consumer Non-Cyclicals	735.05	0.74%	-7.08%
Infrastructures	870.49	0.41%	0.93%
Consumer Cyclicals	733.01	0.20%	-1.33%
JCI	5,938.35	0.17%	-0.68%
Financials	1,321.68	0.04%	4.86%
Healthcare	1,284.68	-0.15%	-1.96%
Property & Real Estate	867.92	-0.25%	-9.19%
Technology	3,307.28	-0.84%	196.95%
Industrials	932.05	-2.01%	0.34%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	0 bps	3 bps
UST 10Y Yield	1.64	6 bps	72 bps
Ind GB 10Y Yield	6.41	0 bps	52 bps
USDIDR	14,198	-87.5	147.5
CDS Indo 5Y	78.11	0.98	10.60

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+364.03Bn	+2.02 Tn
Government Bond Market (Rp)	+0.57 Tn	-7.29 Tn

Commodities	Last	1W	YTD
WTI	65.37	0.72%	34.73%
Brent	68.71	0.69%	32.64%
CPO (Malaysia)	4,506.00	3.56%	42.15%
Coal (New Castle)	99.00	3.07%	22.98%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	930.22	0.24%	-4.56%
XIIT	IDX30	489.53	0.22%	-5.57%
XIJI	JII	583.07	0.55%	-8.87%
XISI	SMInfra18	312.91	0.62%	-5.74%
XISR	Sri Kehati	350.45	0.11%	-7.60%
XIHD	IDXHIDIV20	431.08	-0.05%	-6.16%
XIPI	Pefindo I-Grade	166.08	-0.26%	-3.71%
XIIML	MSCI Indo Large Cap	236.67	-0.26%	-6.76%
XIID	IDX30	474.53	0.21%	-5.77%
XIFE	FTSE Indo ESG	94.23	0.27%	-
XIIC	Consumer Related	943.31	0.15%	-8.80%
XIIF	Rate Sensitive	535.39	0.30%	-9.04%
XISC	BUMN Stocks	699.75	0.13%	-8.34%
XISB	Sovereign Bonds	435.31	0.19%	-2.43%
<i>Conventional</i>				
RDMP	Equity	927.32	-0.31%	-12.28%
RPCF	Balanced	2,700.18	-0.15%	-9.56%
RDP2U	Money Market	1,305.00	0.05%	1.59%

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	26.5	48.5	15.1	9.3	0.57	16.4	2.7	1.12
2	XIIT	28.4	51.3	10.6	9.0	0.60	16.0	3.0	1.17
3	XISC	19.7	34.3	20.8	17.8	7.34	14.4	3.4	1.27
4	XISR	25.1	64.2	5.1	5.0	0.58	16.4	2.8	1.15
5	XIIF	11.3	48.8	39.0	0.0	0.85	16.3	2.7	1.23
6	XISI	46.5	14.7	21.6	16.7	0.51	14.9	3.3	1.13
7	XIPI	17.9	59.7	15.6	6.4	0.44	18.2	2.3	1.19
8	XIIC	33.5	41.6	21.1	3.0	0.71	16.5	3.1	1.10
9	XIHD	31.5	51.8	4.8	10.9	0.97	16.2	3.2	1.15
10	XIJI	48.0	1.3	32.4	17.9	0.42	18.2	2.3	1.09
11	XIML	21.0	70.8	4.4	3.2	0.65	16.0	3.1	1.16
12	XIID	28.4	51.3	10.6	9.0	0.58	16.1	3.0	1.10
13	XIFE	31.2	55.3	6.4	6.3	0.77	16.2	2.9	1.16
Index									
	IDX80	30.2	39.3	19.1	11.4		15.5	2.6	
	JCI	30.3	38.2	21.7	9.8		16.0	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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