

Fed's dovish testimony boosted stocks amid jump in key inflation metric

Global equities rebounded, while US stock indices returned to their new highs, as inflation fears subsiding on signs of easing supply chain pressures and falling prices of some commodities, from metals to food & agriculture, due to China's crackdown on speculators. Bloomberg reported used vehicle prices, which had contributed about one-third to the recent rise in US consumer prices, may have peaked. In addition, markets seem reassured by Fed Chair Powell's testimony to Congress, which reiterated view that recent inflation spike will prove temporary. President Biden's announcement of bipartisan infrastructure spending deal also bolstered market sentiment. Meanwhile, economic data may have also helped calm inflation fears as US durable goods orders grew 2.3% MoM in May vs. 2.8% consensus, initial jobless claims declined marginally to 411K (cons: 380K), while Markit Services PMI in June softened to 64.8, lower than in previous month and consensus expectation of 70.0. On the other hand, core PCE Price Index, a key inflation metric used by Fed to gauge inflation, rose 0.5% MoM (+3.4% YoY) in May, its fastest annual rise since 2008 - in turn this led to a slight rise in 10-year UST yields to 1.52%. We view inflation remain a key risk factor as high inflation (>0.15% MoM), if any, in coming months, could raise Fed's inflation forecast of 2.1% for 2022 and brought forward consensus opinion on the timing of the first rate increases into 2022, from current expectations of two hikes in 2023.

In Indonesia, JCI was flattish (+0.25%) this week amid foreign outflows from both equity market (Rp703Bn) and bond market (Rp7.8Tn). Gains on tobacco, consumer, healthcare and basic materials stocks were offset by the losses in banking, auto, coal mining, and infrastructure sectors.

The Week Ahead – US Private Sector Job Growth, Non Farm Payrolls

The key economic calendar to watch out next week are China Manufacturing PMI (Wed 08:00), EU Inflation Rate (Wed 16:00), US ADP (Private Sector) Employment Change (Wed 19:15), Indonesia Manufacturing PMI (Thu 07:30) & Inflation Rate (Thu 11:00), US Jobless Claims (Thu 19:30), US ISM Manufacturing PMI (Thu 21:00), and US Non Farm Payrolls & Unemployment Rate (Fri 19:30).

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets this year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected (unlike in 2013), Indonesia country risk indicators have improved, and its bond market is now more resilient. We reiterate our 2021 JCI target of 6,600

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 BBCA, widely considered as defensive stock at times of uncertainty. XIPI has managed to closely follow JCI performances in 2021 and outperformed other broad-based ETFs due to its overweight of cyclicals, including in banking & basic materials sectors, and 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 BBCA. 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 XIML (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 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 14.6x and 13.9x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.4x), XIIT (at 16.1x), XIML (at 15.5x) and XIPI (at 18x), and thus may have more upside potential if investors once again rotating away from defensive sectors into cyclical stocks. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,433.84	3.44%	12.51%
S&P 500	4,280.70	2.74%	13.97%
Nasdaq	14,360.39	2.35%	11.42%
FTSE 100	7,136.07	1.69%	10.46%
DAX	15,607.97	1.04%	13.77%
Nikkei 225	29,066.18	0.35%	5.91%
Hang Seng	29,288.22	1.69%	7.55%
Shanghai	3,607.56	2.34%	3.87%
EIDO	20.62	-0.34%	-11.96%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,306.75	5.52%	-0.27%
Basic Materials	1,189.91	1.86%	-3.49%
Consumer Cyclical	745.85	1.35%	0.40%
Consumer Non-Cyclicals	696.51	1.02%	-11.95%
Industrials	971.60	0.85%	4.59%
JCI	6,022.40	0.25%	0.72%
Financials	1,326.90	-0.45%	5.27%
Property & Real Estate	786.28	-0.46%	-17.73%
Technology	10,793.34	-0.55%	869.07%
Energy	734.69	-0.93%	-6.15%
Infrastructures	918.95	-1.25%	6.55%
Transportation	1,003.87	-1.29%	5.31%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.27	1 bps	15 bps
UST 10Y Yield	1.52	9 bps	61 bps
Ind GB 10Y Yield	6.53	-1 bps	64 bps
USDIDR	14,420	45	370
CDS Indo 5Y	72.98	-2.08	5.47

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-703.3Bn	+4.83Tn
Government Bond Market(Rp)	-7.79Tn	-3.15Tn

Commodities	Last	1W	YTD
WTI	73.98	3.27%	52.47%
Brent	76.10	3.52%	46.91%
CPO (Malaysia)	3,514.00	2.63%	14.28%
Coal (New Castle)	127.15	1.72%	57.95%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	906.94	-1.05%	-6.95%
XIIT	IDX30	478.91	-1.29%	-7.62%
XIJI	JII	572.57	0.18%	-10.51%
XISI	SMInfra18	314.08	-2.11%	-5.39%
XISR	SriKehati	337.57	-1.57%	-11.00%
XIHD	IDXHIDIV20	425.60	-1.82%	-7.35%
XIPI	Pefindo I-Grade	162.46	-0.97%	-5.81%
XIML	MSCI Indo Large Cap	229.34	-1.88%	-9.65%
XIID	IDX30	464.24	-1.30%	-7.82%
XIFE	FTSE ESG Indonesia	91.69	-1.06%	-
XIIC	Consumer Related	900.84	-0.81%	-12.91%
XIIF	Rate Sensitive	484.98	-2.98%	-17.61%
XISC	BUMN Stocks	636.05	-3.02%	-16.68%
XISB	Sovereign Bonds	435.95	-0.22%	-2.28%

Conventional	Last	1W	YTD	
RDMP	Equity	886.49	-1.73%	-16.15%
RPCF	Balanced	2,628.83	-1.14%	-11.95%
RDP2	Money Market	1,311.45	0.08%	2.09%

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	27.2	48.2	14.0	9.4	1.07	16.4	2.8	1.12
2 XIIT	29.3	50.8	9.6	9.2	1.09	16.1	3.1	1.17
3 XISC	17.4	33.9	17.8	16.8	14.05	13.9	3.5	1.27
4 XISR	24.9	64.5	4.7	4.7	1.12	15.8	2.9	1.15
5 XIIF	13.0	49.5	34.8	0.0	2.80	15.7	2.8	1.23
6 XISI	48.6	14.4	19.2	16.4	1.44	14.6	3.3	1.13
7 XIPI	18.1	59.1	15.7	6.1	1.04	18.0	2.4	1.19
8 XIIC	37.7	38.3	19.3	3.4	1.21	16.9	3.1	1.10
9 XIHD	31.6	51.1	4.4	11.2	1.63	15.5	3.3	1.15
10 XIJI	47.5	1.1	31.1	17.4	2.88	19.0	2.3	1.09
11 XIIML	19.5	72.5	4.0	3.2	0.80	15.5	3.2	1.16
12 XIID	29.2	50.8	9.7	9.2	1.19	16.3	3.1	1.10
13 XIFE	31.8	55.1	6.0	6.0	1.10	15.8	3.1	1.16
Index								
IDX80	31.5	39.3	17.9	11.4		14.6	2.7	
JCI	31.4	38.9	20.5	9.2		18.0	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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	Ext. 2313	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	Ext. 2314	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	Ext. 2315	0857-9494-5058

DISCLAIMER

© Copyright 2021 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE