

US stocks boosted by falling jobless claims, doubling of vaccination target

Global markets ended mixed as US and European stocks rebounded and Asian markets corrected, reversing prior week's performances, while small cap stocks lagged big caps for the second consecutive week. However, this week's gains were due to Friday's market rebounds as US jobless claims fell and President Biden doubled his vaccination goal to 200m people in the first 100 days of his administration. US economic data released earlier this week showed weaker than expected existing and new home sales (-6.6%/-18.2% MoM, respectively), and durable goods order in February (-1.1% MoM vs. +0.8% cons), although PMI data showed elevated activity expansions in line with market expectations. Meanwhile, US 10-yr bond yields retreated from a pandemic-era high of 1.73% as weak economic data was released but it was back up on Friday when jobless claims fell much more than expected to a new pandemic-era low of 684K (cons: 730K). Personal Consumption Expenditures (PCE) Price Index grew 0.2% MoM; 1.6% YoY in February, rising but within the Fed's 2% target. Fed Chair Powell and Treasury Secretary Yellen testified before Congress and stated there is little danger of an overheating economy and expect inflation rise to be short lived.

In Indonesia, JCI plunged (-2.53%), in line with most Asian markets, as foreign flows reversed (-Rp791Bn) while bond outflows were sustained but moderating. Banking, basic industries, property and consumer sectors led the declines while trade, agriculture, mining and infrastructure sectors were more resilient.

The Week Ahead – Indonesia Manufacturing PMI, US 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 Employment Change (Wed 19:15), US Pending Home Sales (Wed 21:00), Indonesia Manufacturing PMI (Thu 07:30), China Caixin Manufacturing PMI (Thu 08:45), Indonesia Inflation Rate (Thu 11:00), US Jobless Claims (Thu 19:30), US ISM Manufacturing PMI (Thu 21:00), 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 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 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 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. Meanwhile, XIPI has managed to closely track JCI performances so far in 2021, well outperforming other broad-based ETFs due to its overweight of cyclicals, 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 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 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 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 16.4x and 15.8x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.7x), XIIT (at 17.1x), XIIML (at 17.2x) and XIPI (at 19.4x), 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	33,072.88	1.36%	8.06%
S&P 500	3,974.54	1.57%	5.82%
Nasdaq	13,138.72	-0.58%	1.94%
FTSE 100	6,740.59	0.48%	4.34%
DAX	14,748.94	0.88%	7.51%
Nikkei 225	29,176.70	-2.07%	6.31%
Hang Seng	28,336.43	-2.26%	4.06%
Shanghai	3,418.33	0.40%	-1.58%
EIDO	23.03	-1.37%	-1.67%

JCI Sector Indices	Last	1W	YTD
JAKTRAD	861.00	0.64%	12.35%
JAKAGRI	1,463.00	0.13%	-2.33%
JAKMINE	1,856.20	0.06%	-3.10%
JAKINFR	1,067.07	-0.92%	6.60%
JCI	6,195.56	-2.53%	3.62%
JAKMIND	1,040.20	-2.55%	-3.78%
JAKCONS	1,708.84	-2.66%	-6.73%
JAKPROP	380.24	-2.90%	-4.20%
JAKBIND	973.52	-3.22%	5.71%
JAKFIN	1,436.84	-4.01%	7.78%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	-1 bps	2 bps
UST 10Y Yield	1.67	-5 bps	76 bps
Ind GB 10Y Yield	6.71	-9 bps	83 bps
USDIDR	14,418	10	368
CDS Indo 5Y	86.37	11.44	18.86

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-791.3Bn	+6.59Tn
Government Bond Market (Rp)	-802.0Bn	-21.34Tn

Commodities	Last	1W	YTD
WTI	60.72	-1.14%	25.14%
Brent	64.57	0.06%	24.65%
CPO (Malaysia)	3,717.00	-0.19%	13.84%
Coal (New Castle)	95.40	2.86%	18.51%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	980.15	-1.73%	0.56%
XIIT	IDX30	516.87	-1.69%	-0.30%
XIJI	JII	627.35	-1.18%	-1.95%
XISI	SMInfra18	322.12	-2.42%	-2.97%
XISR	Sri Kehati	373.37	-1.98%	-1.56%
XIHD	IDXHIDIV20	459.56	-1.65%	0.04%
XIPI	Pefindo I-Grade	178.19	-1.65%	3.31%
XIIML	MSCI Indo Large Cap	252.75	-1.70%	-0.43%
XIID	IDX30	501.46	-1.69%	-0.43%
XIFE	FTSE Indo ESG	100.09		
XIIC	Consumer Related	1,012.31	-1.46%	-2.13%
XIIF	Rate Sensitive	582.62	-2.61%	-1.02%
XISC	BUMN Stocks	762.51	-2.06%	-0.12%
XISB	Sovereign Bonds	422.63	0.29%	-5.27%
<i>Conventional</i>				
RDMP	Equity	1,003.51	-2.28%	-5.08%
RPCF	Balanced	2,845.75	-1.49%	-4.68%
RDP2U	Money Market	1,298.18	0.08%	1.06%

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	26.7	49.4	15.4	8.2	0.34	17.7	2.5	1.12
2 XIIT	28.7	52.2	10.8	8.0	0.35	17.1	2.8	1.17
3 XISC	19.6	35.6	25.8	16.2	2.76	15.8	3.0	1.27
4 XISR	26.0	64.0	5.2	4.4	0.47	17.6	2.6	1.15
5 XIIF	11.1	49.1	39.1	0.0	0.66	17.3	2.5	1.23
6 XISI	46.7	16.3	23.1	13.3	0.61	16.4	3.0	1.13
7 XIPI	18.1	59.4	16.8	5.2	0.50	19.4	2.1	1.19
8 XIIC	34.0	42.2	20.5	0.0	3.41	17.7	2.9	1.10
9 XIHD	31.1	52.7	4.7	10.8	0.70	17.4	3.0	1.15
10 XIJI	49.3	1.4	33.2	15.9	0.14	19.8	2.1	1.09
11 XIIML	21.6	70.7	4.2	3.0	0.45	17.2	2.9	1.16
12 XIID	28.6	52.2	10.8	8.0	0.40	17.2	2.8	1.10
13 XIFE	31.8	55.2	6.6	6.0	0.45	17.4	2.7	1.16
Index								
IDX80	30.3	41.0	18.5	10.2		16.3	2.5	
JCI	30.8	39.6	21.7	7.9		16.4	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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