

**Fed talked tapering but is in no rush, yields eased amid delta variant fears**

Global equities rebounded from Thursday's sell-offs arising from concerns over global recovery amid Covid resurgence, delta variant worries and slowing pace of US employment conditions. US initial jobless claims of 373K vs. 371K in prior week was worse than expected (350K), indicating the pace of improvement has stalled as unemployment rate has ticked down only slightly in recent months. Meanwhile, FOMC Minutes revealed Fed officials talked about reducing asset purchases during the June 15-16 meeting but kept a patient tone as economic conditions have not met the "substantial further progress" benchmark to start tightening policy. The meeting summary stated Fed's view that while inflation has been rising faster than they expect, they see the current trend as transitory and officials intend to provide notice well in advance of a taper announcement. While US stocks rebounded to reach new highs on Friday, 10-year US Treasury yield bounced off to 1.36%, after falling on Thursday to as low as 1.25%, levels which have not been seen since February, as yields have trended lower on delta variant worries, which have also clouded Asian equity markets.

In Indonesia, JCI was relatively flat (+0.28%) amid foreign outflows from equity market (Rp223Bn) and bond market (Rp1.3Tn). Gains in metals mining, telecom, media and retailing sectors offset losses in banking, consumer, tobacco, auto, toll-road, property and construction stocks.

**The Week Ahead – US Inflation, Powell Testimony, China GDP Growth**

The key economic calendar to watch out for next week include US Inflation Rate (Tue 19:30), EU Industrial Production (Wed 16:00), Fed Chair Powell Testimony (Wed 23:00), China GDP Growth Rate and Industrial Production (Thu 09:00), Indonesia Trade Balance (Thu 11:00), US Initial Jobless Claims (Thu 19:30), US Retail Sales (Fri 19:30), Michigan Consumer Expectations (Fri 21:00). Consensus estimates for US inflation are 0.5% MoM (4.9% YoY) in June, slight easing from 0.6% and 5.0% in May, respectively, while core inflation is expected to fall more significantly to 0.4% MoM (from 0.7%).

**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 14.2x and 13.8x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.2x), XIIT (at 15.9x), XIML (at 15.2x) and XIPI (at 18x), and may have more upside potential if investors once again are rotating away from defensive sectors into cyclical stocks, although we believe this is unlikely given renewed lockdowns in Indonesia. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,870.16	0.24%	13.93%
S&P 500	4,369.55	0.40%	16.33%
Nasdaq	14,701.92	0.43%	14.07%
FTSE 100	7,121.88	-0.02%	10.24%
DAX	15,687.93	0.24%	14.35%
Nikkei 225	27,940.42	-2.93%	1.81%
Hang Seng	27,344.54	-3.41%	0.42%
Shanghai	3,524.09	0.15%	1.47%
EIDO	20.33	-1.98%	-13.19%

JCI Sector Indices	Last	1W	YTD
Technology	11,331.74	4.72%	917.41%
Healthcare	1,419.56	4.22%	8.34%
Transportation	1,010.79	3.09%	6.03%
Consumer Cyclical	784.00	2.81%	5.53%
Basic Materials	1,186.56	2.25%	-3.76%
Infrastructures	896.74	1.56%	3.98%
Property & Real Estate	794.48	1.14%	-16.87%
JCI	<b>6,039.84</b>	<b>0.28%</b>	<b>1.01%</b>
Energy	732.78	0.28%	-6.40%
Financials	1,319.27	-0.47%	4.67%
Industrials	945.03	-2.08%	1.73%
Consumer Non-Cyclicals	703.24	-2.69%	-11.10%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.22	-2 bps	9 bps
UST 10Y Yield	1.36	-7 bps	45 bps
Ind GB 10Y Yield	6.55	-8 bps	67 bps
USDIDR	14,525	-5	475
CDS Indo 5Y	77.62	3.58	10.11

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-222.88Bn	+3.88Tn
Government Bond Market(Rp)	-1.32Tn	-1.26Tn

Commodities	Last	1W	YTD
WTI	74.56	-0.71%	53.67%
Brent	75.55	-0.63%	45.85%
CPO (Malaysia)	3,769.00	-0.53%	22.57%
Coal (New Castle)	143.00	6.65%	77.64%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	892.70	-1.28%	-8.41%
XIIT	IDX30	471.16	-1.43%	-9.12%
XIJI	JII	571.22	0.45%	-10.72%
XISI	SMInfra18	305.07	-0.72%	-8.11%
XISR	SriKehati	328.63	-2.03%	-13.36%
XIHD	IDXHIDIV20	419.06	-1.11%	-8.78%
XIPI	Pefindo I-Grade	158.04	-1.26%	-8.37%
XIML	MSCI Indo Large Cap	222.64	-2.06%	-12.29%
XIID	IDX30	456.58	-1.44%	-9.34%
XIFE	FTSE ESG Indonesia	90.09	-1.20%	-
XIIC	Consumer Related	902.06	-0.84%	-12.79%
XIIF	Rate Sensitive	472.53	-2.05%	-19.72%
XISC	BUMN Stocks	630.32	-0.05%	-17.43%
XISB	Sovereign Bonds	436.49	0.32%	-2.16%

Conventional	Last	1W	YTD	
RDMP	Equity	874.67	-1.49%	-17.26%
RPCF	Balanced	2,607.88	-0.79%	-12.65%
RDPU 2	Money Market	1,313.42	0.07%	2.25%

**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 <b>RLQ45</b>	27.8	48.0	14.1	9.8	0.29	16.2	2.9	1.12
2 <b>XIIT</b>	30.0	50.6	9.6	9.5	0.27	15.9	3.1	1.17
3 <b>XISC</b>	16.6	36.5	15.4	18.0	13.48	13.8	3.6	1.27
4 <b>XISR</b>	25.9	65.1	3.4	5.3	0.30	15.2	3.0	1.15
5 <b>XIIF</b>	12.8	52.4	33.5	0.0	1.30	15.5	2.9	1.23
6 <b>XISI</b>	50.7	14.4	19.1	15.5	0.30	14.2	3.4	1.13
7 <b>XIPI</b>	18.9	59.5	16.5	4.2	0.95	18.0	2.3	1.19
8 <b>XIIC</b>	38.9	37.2	19.2	3.5	1.12	16.8	2.8	1.10
9 <b>XIHD</b>	32.3	50.5	4.4	11.2	1.60	15.1	3.4	1.15
10 <b>XIJI</b>	48.7	1.2	31.2	18.3	0.57	19.0	2.3	1.09
11 <b>XIML</b>	19.7	72.5	4.3	3.0	0.48	15.2	3.3	1.16
12 <b>XIID</b>	30.0	50.6	9.6	9.5	0.30	16.0	3.1	1.10
13 <b>XIFE</b>	32.7	54.4	5.7	6.1	1.06	15.6	3.1	1.16
<b>Index</b>								
<b>IDX80</b>	31.9	38.9	17.7	11.6		14.7	2.8	
JCI	31.3	38.0	21.4	9.4		18.0	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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