

Running hot inflation led to weaker US consumer sentiment

US and European stocks close lower while Asian markets recover this week after US inflation surprised to the upside (again) for the fourth consecutive month in June and consumer sentiment fell due to inflation fears. US core inflation rose 0.9% MoM, 4.5% YoY in June (cons: 0.4%/4.0%, respectively), the highest level since 1991, still driven by skyrocketing used-car prices, although price pressures are becoming more broad-based. On the other hand, US retail sales in June beat expectations, growing at 0.6% MoM (18% YoY) vs. consensus of -0.4% but this data was overshadowed by University of Michigan's consumer sentiment index, which dropped to a five-month low of 80.8 in July (June: 85.5), below expectations of 86.5, due to consumers worrying about rising prices on homes, vehicles, and household durables. The weekly jobless claims data hit a new pandemic low of 360,000, albeit in line with expectations. Meanwhile, 10-yr UST yield initially rose after the hot inflation data but yield fell back to 1.3% after Fed Chair Powell's testimony to Congress alleviated concerns about Fed's scale back of asset purchases and premature tightening. The bond market has defied consensus expectations in early 2021 of interest rates heading sharply higher on the back of a booming US economy and rising inflation as instead 10-yr UST yield kept heading lower and declined to 1.3%, its previous level in February.

In Indonesia, JCI gained 0.54% as foreign inflows returned into equity market (Rp1.39Tn) while bond market saw outflows (Rp2.44Tn). Healthcare, banking and consumer stocks are driving the market higher while technology, retailing, basic materials, property and construction stocks declined the most.

The Week Ahead – BI Interest Rate Decision, Markit PMIs for EU and US

The key economic calendar to watch out for next week include BI Interest Rate Decision (Thu 14:30), ECB Interest Rate Decision (Thu 18:45), US Initial Jobless Claims (Thu 19:30), EU Consumer Confidence (Thu 21:00), Markit Manufacturing and Services PMI data for EU (Fri 15:00) and US (20:45).

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 BBKA, 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 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 14.3x and 14.0x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.3x), XIIT (at 16.0x), XIIML (at 15.4x) and XIPI (at 18.1x), 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	34,687.85	-0.52%	13.33%
S&P 500	4,327.16	-0.97%	15.20%
Nasdaq	14,427.24	-1.87%	11.94%
FTSE 100	7,008.09	-1.60%	8.48%
DAX	15,540.31	-0.94%	13.28%
Nikkei 225	28,003.08	0.22%	2.04%
Hang Seng	28,004.68	2.41%	2.84%
Shanghai	3,539.30	0.43%	1.91%
EIDO	20.24	-0.44%	-13.58%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,457.75	2.69%	10.54%
Financials	1,347.18	2.12%	6.73%
Consumer Non-Cyclicals	709.09	0.83%	-10.83%
Energy	737.64	0.66%	-6.68%
JCI	6,072.51	0.54%	1.39%
Infrastructures	898.58	0.21%	4.77%
Transportation	1,008.61	-0.22%	6.84%
Industrials	940.79	-0.45%	1.40%
Property & Real Estate	789.58	-0.62%	-17.14%
Basic Materials	1,169.07	-1.47%	-5.43%
Consumer Cyclicals	760.90	-2.95%	1.46%
Technology	10,964.49	-3.24%	890.66%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.23	2 bps	11 bps
UST 10Y Yield	1.32	-4 bps	41 bps
Ind GB 10Y Yield	6.37	-19 bps	48 bps
USDIDR	14,498	-30	448
CDS Indo 5Y	77.88	0.26	10.37

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	1.39 Tn	+5.27Tn
Government Bond Market(Rp)	-2.44Tn	-0.78Tn

Commodities	Last	1W	YTD
WTI	72.02	-3.41%	48.43%
Brent	73.79	-2.33%	42.45%
CPO (Malaysia)	4,223.00	8.50%	41.47%
Coal (New Castle)	146.00	2.10%	81.37%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	900.03	0.82%	-7.66%
XIIT	IDX30	475.56	0.93%	-8.27%
XIJI	JII	572.44	0.21%	-10.53%
XISI	SMInfra18	307.53	0.81%	-7.37%
XISR	SriKehati	333.51	1.48%	-12.07%
XIHD	IDXHIDIV20	423.56	1.07%	-7.80%
XIPI	Pefindo I-Grade	159.24	0.76%	-7.67%
XIIML	MSCI Indo Large Cap	224.84	0.98%	-11.43%
XIID	IDX30	460.78	0.92%	-8.50%
XIFE	FTSE ESG Indonesia	91.14	1.17%	-
XIIC	Consumer Related	903.91	0.20%	-12.61%
XIIF	Rate Sensitive	472.74	0.04%	-19.68%
XISC	BUMN Stocks	635.89	0.88%	-16.70%
XISB	Sovereign Bonds	440.26	0.87%	-1.32%

Conventional	Last	1W	YTD	
RDMP	Equity	880.44	0.66%	-16.72%
RPCF	Balanced	2,624.80	0.65%	-12.08%
RDPU 2	Money Market	1,314.39	0.07%	2.32%

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	28.0	48.1	13.9	9.7	0.27	16.3	2.8	1.12
2 XIIT	30.1	50.7	9.5	9.4	0.25	16.0	3.1	1.17
3 XISC	16.8	37.7	15.2	17.5	12.85	14.0	3.5	1.27
4 XISR	26.2	65.0	3.3	5.3	0.27	15.4	3.0	1.15
5 XIIF	13.0	53.0	32.8	0.0	1.23	15.6	2.8	1.23
6 XISI	51.0	14.5	19.0	15.1	0.27	14.3	3.4	1.13
7 XIPI	19.1	60.0	15.9	4.2	0.92	18.1	2.3	1.19
8 XIIC	38.8	37.6	19.1	3.5	1.04	16.9	2.8	1.10
9 XIHD	32.7	51.2	4.5	11.2	0.47	15.3	3.4	1.15
10 XIJI	49.4	1.1	30.5	18.4	0.54	19.0	2.3	1.09
11 XIML	19.8	72.7	4.3	2.9	0.31	15.4	3.2	1.16
12 XIID	30.1	50.7	9.6	9.4	0.28	16.2	3.1	1.10
13 XIFE	33.0	54.6	5.6	6.3	0.49	15.7	3.1	1.16
Index								
IDX80	32.1	39.0	17.3	11.6		14.6	2.7	
JCI	31.2	38.5	20.9	9.4		18.2	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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