

**Strong rebound after Monday's sell-off propels US stocks to new highs**

Global stock markets rebounded after Monday's sell-off driven by the spread of Covid delta variant. However, market rebound was uneven as US and European stocks hit new highs while Asian equities lagged, perhaps reflecting a wide gap in vaccination rates in advanced vs. emerging economies. While the spread of the Delta is worrying, even also in US and Europe, stock market optimism may reflect acceptance that Covid will become endemic, people will have to learn to live with the virus and vaccines do work (in most cases). In addition, US Q2 earnings has so far been strong as 90% of the 41 S&P500 companies that have reported earnings to date beat estimates. Stocks also gained across Europe as ECB reaffirmed dovish stance, economies continued to reopen despite a sharp rise in Covid cases while Markit composite PMI for Euro Area climbed to 60.6 in July, its highest level in a year. Meanwhile, in the bond market, fears over the delta variant also spurred a steep fall in 10-yr UST yield to a five-month low of 1.18% on Monday before the yield climbed back to 1.28%. The bond market has defied expectations as yields kept heading lower despite US economy and inflation running hot in recent months.

In Indonesia, JCI gained 0.48% as equity market benefited from foreign inflows (Rp1.38Tn) while the bond market reported significant net outflows (Rp3.23Tn). Banking, industrials, energy, property and technology sectors are driving the market higher while healthcare, consumer, and basic materials sectors declined during the week.

**The Week Ahead – Fed Rate Decision, US GDP Growth & PCE Price Index**

The key economic calendar to watch out for next week include US New Home Sales (Mon 21:00), US Durable Goods Orders (Tue 19:30), Fed Interest Rate Decision (Thu 01:00), US GDP Growth Rate & Initial Jobless Claims (Thu 19:30), EU GDP Growth Rate and Inflation (Fri 16:00), US Personal Income & Spending, US PCE Price Index (Fri 19:30), China NBS Manufacturing & Non-Manufacturing PMI (Sat 08:00).

**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 2021 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 18.0x), 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                 | 35,061.55 | 1.08%  | 14.56%  |
| S&P 500              | 4,411.79  | 1.96%  | 17.46%  |
| Nasdaq               | 14,836.99 | 2.84%  | 15.12%  |
| FTSE 100             | 7,027.58  | 0.28%  | 8.78%   |
| DAX                  | 15,669.29 | 0.83%  | 14.22%  |
| Nikkei 225           | 27,548.00 | -1.63% | 0.38%   |
| Hang Seng            | 27,321.98 | -2.44% | 0.33%   |
| Shanghai             | 3,550.40  | 0.31%  | 2.23%   |
| EIDO                 | 20.21     | -0.15% | -13.71% |

| JCI Sector Indices     | Last            | 1W           | YTD          |
|------------------------|-----------------|--------------|--------------|
| Consumer Cyclical      | 785.31          | 3.21%        | 5.71%        |
| Technology             | 11,309.06       | 3.14%        | 915.38%      |
| Energy                 | 757.23          | 2.66%        | -3.27%       |
| Property & Real Estate | 807.56          | 2.28%        | -15.50%      |
| Financials             | 1,367.11        | 1.48%        | 8.46%        |
| Industrials            | 953.70          | 1.37%        | 2.67%        |
| Transportation         | 1,015.46        | 0.68%        | 6.53%        |
| <b>JCI</b>             | <b>6,101.69</b> | <b>0.48%</b> | <b>2.04%</b> |
| Infrastructures        | 900.16          | 0.18%        | 4.38%        |
| Basic Materials        | 1,151.87        | -1.47%       | -6.57%       |
| Consumer Non-Cyclicals | 691.62          | -2.46%       | -12.57%      |
| Healthcare             | 1,399.77        | -3.98%       | 6.82%        |

| Rates and Bonds  | Last   | 1W      | YTD    |
|------------------|--------|---------|--------|
| UST 2Y Yield     | 0.20   | -2 bps  | 8 bps  |
| UST 10Y Yield    | 1.28   | -1 bps  | 37 bps |
| Ind GB 10Y Yield | 6.30   | -25 bps | 42 bps |
| USDIDR           | 14,493 | -5      | 443    |
| CDS Indo 5Y      | 78.30  | 0.68    | 10.79  |

| Foreign Fund Flows         | 1W      | YTD      |
|----------------------------|---------|----------|
| Equity Regular Market (Rp) | +1.38Tn | +6.65Tn  |
| Government Bond Market(Rp) | -3.23Tn | -11.14Tn |

| Commodities       | Last     | 1W    | YTD    |
|-------------------|----------|-------|--------|
| WTI               | 71.86    | 0.07% | 48.10% |
| Brent             | 73.70    | 0.15% | 42.28% |
| CPO (Malaysia)    | 4,255.00 | 2.85% | 46.22% |
| Coal (New Castle) | 149.75   | 1.11% | 86.02% |

| Funds and ETFs | Last                | 1W     | YTD    |         |
|----------------|---------------------|--------|--------|---------|
| <i>ETF</i>     | <i>Theme</i>        |        |        |         |
| RLQ45          | LQ45                | 899.47 | -0.06% | -7.71%  |
| XIIT           | IDX30               | 475.66 | 0.02%  | -8.25%  |
| XIJI           | JII                 | 564.73 | -1.35% | -11.74% |
| XISI           | SMInfra18           | 309.62 | 0.68%  | -6.74%  |
| XISR           | SriKehati           | 333.22 | -0.09% | -12.15% |
| XIHD           | IDXHIDIV20          | 426.28 | 0.64%  | -7.21%  |
| XIPI           | Pefindo I-Grade     | 159.14 | -0.07% | -7.74%  |
| XIML           | MSCI Indo Large Cap | 224.40 | -0.19% | -11.60% |
| XIID           | IDX30               | 460.82 | 0.01%  | -8.50%  |
| XIFE           | FTSE ESG Indonesia  | 90.95  | -0.21% | -       |
| XIIC           | Consumer Related    | 902.94 | -0.11% | -12.71% |
| XIIF           | Rate Sensitive      | 484.71 | 2.53%  | -17.65% |
| XISC           | BUMN Stocks         | 654.03 | 2.85%  | -14.33% |
| XISB           | Sovereign Bonds     | 440.93 | 0.15%  | -1.17%  |

| Conventional | Last         | 1W       | YTD   |         |
|--------------|--------------|----------|-------|---------|
| RDMP         | Equity       | 889.73   | 1.06% | -15.84% |
| RPCF         | Balanced     | 2,640.50 | 0.60% | -11.56% |
| RDP2         | Money Market | 1,315.36 | 0.07% | 2.40%   |

**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           | 27.6                                  | 48.5           | 13.7          | 9.8         | 0.39  | 16.2    | 2.9            | 1.12        |
| 2 XIIT            | 29.6                                  | 51.1           | 9.5           | 9.5         | 0.39  | 15.9    | 3.1            | 1.17        |
| 3 XISC            | 16.8                                  | 37.9           | 15.5          | 17.3        | 12.48 | 13.8    | 3.6            | 1.27        |
| 4 XISR            | 25.7                                  | 65.3           | 3.3           | 5.4         | 0.24  | 15.2    | 3.0            | 1.15        |
| 5 XIIF            | 11.8                                  | 52.9           | 34.8          | 0.0         | 0.55  | 15.5    | 2.9            | 1.23        |
| 6 XISI            | 50.6                                  | 14.7           | 19.1          | 15.2        | 0.50  | 14.2    | 3.4            | 1.13        |
| 7 XIPI            | 19.0                                  | 60.6           | 15.5          | 4.0         | 0.89  | 18.0    | 2.3            | 1.19        |
| 8 XIIC            | 38.3                                  | 36.2           | 19.1          | 3.4         | 3.03  | 16.8    | 2.8            | 1.10        |
| 9 XIHD            | 32.2                                  | 51.4           | 4.3           | 11.6        | 0.55  | 15.1    | 3.4            | 1.15        |
| 10 XIJI           | 49.1                                  | 1.1            | 30.3          | 18.8        | 0.63  | 19.0    | 2.3            | 1.09        |
| 11 XIIML          | 19.6                                  | 73.1           | 4.2           | 3.0         | 0.14  | 15.2    | 3.3            | 1.16        |
| 12 XIID           | 29.6                                  | 51.0           | 9.5           | 9.5         | 0.39  | 16.0    | 3.1            | 1.10        |
| 13 XIFE           | 32.5                                  | 54.9           | 5.6           | 6.5         | 0.52  | 15.6    | 3.1            | 1.16        |
| <b>Index</b>      |                                       |                |               |             |       |         |                |             |
| IDX80             | 31.9                                  | 38.9           | 17.7          | 11.6        |       | 14.8    | 2.8            |             |
| JCI               | 31.3                                  | 38.0           | 21.4          | 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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