

Strong US job growth albeit not strong enough for Fed to tighten earlier

US stocks climbed to new highs this week, bolstered by strong economic data, but elsewhere globally markets are clouded by fears of Covid cases resurgences driven by highly transmissible delta variant amid low vaccination rates in most other countries. US consumer confidence is high, as reflected in pending home sales growth of 8% MoM in May (cons: -0.8%). ADP's survey of private sector jobs, the first of the three jobs reports released this week, showed job growth of 692K in June, driven by services sector - this was below May's 886K but still above forecasts of 600K. The weekly initial jobless claims fell to new pandemic lows of 364K, also better than expected (cons: 390K), while the June non farm payrolls growth of 850K was much better than May's 583K jobs and consensus expectations (700K). However, in spite of strong jobs growth, unemployment rate edged up to 5.9% in June (May: 5.8%), it was still well above pre-pandemic levels, while the labor force participation rate was unchanged at 61.6%. Markets view this positively as job growth is strong but not too strong to compel Fed to accelerate its timeline to lower accommodative policies, as evident in 10-yr UST yields, which declined to 1.43%. Elsewhere globally, fears of Covid resurgences in Europe and Asia, driven by the delta variant amid still low vaccination rates, have clouded most other markets.

In Indonesia, JCI was unchanged amid continuing foreign outflows from equity market (Rp732Bn), while bond market reversed to inflows of Rp3.4Tn. Gains in tobacco, consumer, automotive, and healthcare sectors were largely offset by losses in banking, telecommunication, and basic materials stocks.

The Week Ahead – FOMC Minutes, ECB Monetary Policy Meeting Accounts

The key economic calendar to watch out next week are ECB President Lagarde Speech (Mon 16:00), EU Retail Sales (Tue 16:00), US ISM Non-Manufacturing PMI (Tue 21:00), US FOMC Minutes (Thu 01:00), US Jobless Claims (Thu 19:30), and ECB Monetary Policy Meeting Accounts (Thu 19:30). We expect markets to look for clues from FOMC Minutes on discussions regarding Fed's timeline for reduction of its bond purchases program (tapering), if any.

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 14.4x and 14.7x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.5x), XIIT (at 16.2x), XIML (at 15.6x) and XIPI (at 18.7x), and may have more upside potential if investors are 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	34786.35	1.02%	13.66%
S&P 500	4352.34	1.67%	15.87%
Nasdaq	14,639.33	1.94%	13.59%
FTSE 100	7,123.27	-0.18%	10.26%
DAX	15,650.09	0.27%	14.08%
Nikkei 225	28,783.28	-0.97%	4.88%
Hang Seng	28,310.42	-3.34%	3.96%
Shanghai	3,518.76	-2.46%	1.32%
EIDO	20.74	0.58%	-11.44%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,362.07	4.23%	3.95%
Consumer Non-Cyclicals	722.69	3.76%	-8.64%
Consumer Cyclical	762.56	2.24%	2.65%
Technology	10,820.97	0.26%	871.55%
JCI	6,023.01	0.01%	0.73%
Property & Real Estate	785.55	-0.09%	-17.81%
Financials	1,325.52	-0.10%	5.16%
Energy	730.75	-0.54%	-6.66%
Industrials	965.11	-0.67%	3.90%
Transportation	980.48	-2.33%	2.85%
Basic Materials	1,160.49	-2.47%	-5.88%
Infrastructures	882.99	-3.91%	2.38%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.24	-3 bps	12 bps
UST 10Y Yield	1.43	-9 bps	52 bps
Ind GB 10Y Yield	6.64	11 bps	75 bps
USDIDR	14,530	110	480
CDS Indo 5Y	74.04	1.06	6.53

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-732.28Bn	+4.10Tn
Government Bond Market(Rp)	+3.40Tn	+3.40Tn

Commodities	Last	1W	YTD
WTI	75.09	1.50%	54.76%
Brent	76.03	-0.09%	46.78%
CPO (Malaysia)	3,789.00	7.83%	23.22%
Coal (New Castle)	134.08	5.45%	66.56%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	904.32	-0.29%	-7.22%
XIIT	IDX30	478.02	-0.19%	-7.79%
XIJI	JII	568.64	-0.69%	-11.12%
XISI	SMInfra18	307.27	-2.17%	-7.44%
XISR	SriKehati	335.43	-0.64%	-11.57%
XIHD	IDXHIDIV20	423.75	-0.44%	-7.76%
XIPI	Pefindo I-Grade	160.06	-1.48%	-7.20%
XIML	MSCI Indo Large Cap	227.32	-0.88%	-10.45%
XIID	IDX30	463.25	-0.21%	-8.01%
XIFE	FTSE ESG Indonesia	91.19	-0.55%	-
XIIC	Consumer Related	909.72	0.99%	-12.05%
XIIF	Rate Sensitive	482.44	-0.52%	-18.04%
XISC	BUMN Stocks	630.61	-0.85%	-17.39%
XISB	Sovereign Bonds	435.08	-0.20%	-2.48%

Conventional	Last	1W	YTD	
RDMP	Equity	887.92	0.16%	-16.01%
RPCF	Balanced	2,628.60	-0.01%	-11.96%
RDP2	Money Market	1,312.45	0.08%	2.17%

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	27.5	48.3	13.9	9.2	1.07	16.5	2.8	1.12
2 XIIT	29.5	50.8	9.6	9.0	1.08	16.2	3.0	1.17
3 XISC	16.7	35.1	16.1	16.7	15.35	14.7	3.3	1.27
4 XISR	25.8	64.8	3.4	5.0	1.02	15.5	3.0	1.15
5 XIIF	12.7	50.7	33.3	0.0	3.31	16.3	2.7	1.23
6 XISI	48.9	14.6	19.2	15.9	1.44	14.4	3.4	1.13
7 XIPI	18.6	59.9	16.5	4.0	0.97	18.7	2.2	1.19
8 XIIC	38.3	37.9	19.2	3.4	1.17	17.2	2.8	1.10
9 XIHD	31.7	51.4	4.4	10.9	1.62	15.5	3.3	1.15
10 XIJI	48.1	1.2	30.8	17.1	2.86	18.9	2.4	1.09
11 XIIML	19.4	72.7	4.2	3.1	0.64	15.6	3.2	1.16
12 XIID	29.4	50.7	9.6	9.0	1.17	16.3	3.0	1.10
13 XIFE	32.2	55.0	5.8	5.9	1.08	15.9	3.1	1.16
Index								
IDX80	31.6	39.6	17.7	11.2		14.7	2.7	
JCI	31.2	38.4	21.3	9.1		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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