

**FOMC Minutes revealed reduction of bond purchases could begin this year**

Global equities began the week strongly with US stock indices hitting new highs on Monday but this was followed by market corrections in the next 2 days as US retail sales fell by more than expected in July (-1.1% MoM vs. -0.3% cons.), as also housing starts (-7% MoM). More importantly, Wednesday's release of the minutes from the last Fed meeting in July 27-28 revealed most Committee members viewed it could be appropriate to start reducing the pace of its asset purchases this year in light of Fed's inflation target and the significant progress in achieving its maximum employment goal. The taper news led to global stock market corrections this week, particularly for EM equities (-4.69%) while DM fell more moderately (-1.44%), thus widening performance gap between these two asset classes ytd 2021 (+14.5% vs. -5.5%). Contributing to negative sentiment is spread of the delta variant and China's slowing growth, as reflected in July retail sales and industrial production whose growth slowed more than expected. The Fed could begin communicating its taper timeline in more detail during its next meeting on September 21-22. However, we don't expect a repeat of the 2013 Taper Tantrum market impact given the Fed's more transparent communication this time. Meanwhile, in bond market 10-yr UST yield eased slightly to 1.26%, reflecting growth concerns driven by the Covid delta variant.

In Indonesia, JCI fell 1.77% amid a broad market correction and selloffs in the technology sector (-11.5%), despite foreign net buy of Rp2.18Tn, of which BBCA contributed most of the inflows (Rp1.4Tn). Among major stocks, coal & metals mining, tobacco and construction dropped the most while banking, telecom, cement and auto stocks performed the best with significant gains this week.

**The Week Ahead – Markit PMI, US Durable Goods Order, Fed Chair Speech**

The key economic calendar to watch out next week are Markit Manufacturing and Services PMIs for EU and US (Mon 15:00/20:45), US Durable Goods Orders (Wed 19:30), ECB Monetary Policy Meeting Accounts (Thu 18:30), US Jobless Claims (Thu 19:30), US Personal Income & Spending, PCE Price Index (Fri 19:30), Fed Chair Powell Speech at the Jackson Hole Economic Symposium (Fri 21:00).

**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 14.9x and 15.2x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 16.9x), XIML (at 16.0x) and XIPI (at 19.4x), 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	35,120.08	-1.11%	14.75%
S&P 500	4,441.67	-0.59%	18.25%
Nasdaq	14,714.66	-0.73%	14.17%
FTSE 100	7,087.90	-1.81%	9.71%
DAX	15,808.04	-1.06%	15.23%
Nikkei 225	27,013.25	-3.45%	-1.57%
Hang Seng	24,849.72	-5.84%	-8.75%
Shanghai	3,327.33	-5.37%	-4.20%
MSCI World	3,080.02	-1.44%	14.50%
MSCI Emerging Markets	1,220.78	-4.69%	-5.46%

JCI Sector Indices	Last	1W	YTD
Infrastructures	928.51	0.38%	7.66%
Financials	1,393.13	0.06%	10.53%
Property & Real Estate	797.19	-0.82%	-16.59%
Basic Materials	1,147.53	-1.44%	-6.93%
Industrials	962.51	-1.59%	3.62%
Consumer Cyclical	792.24	-1.66%	6.64%
<b>JCI</b>	<b>6,030.77</b>	<b>-1.77%</b>	<b>0.86%</b>
Healthcare	1,292.17	-2.44%	-1.39%
Consumer Non-Cyclicals	647.79	-3.30%	-18.11%
Transportation	1,041.80	-4.38%	9.29%
Energy	732.90	-4.44%	-6.38%
Technology	9,827.90	-11.49%	782.39%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.23	2 bps	10 bps
UST 10Y Yield	1.26	-2 bps	34 bps
Ind GB 10Y Yield	6.42	6 bps	54 bps
USDIDR	14,453	65	403
CDS Indo 5Y	74.36	0.12	6.85

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.18Tn	+8.88Tn
Government Bond Market (Rp)	+410Bn	+1.38Tn

Commodities	Last	1W	YTD
WTI	62.25	-9.04%	28.30%
Brent	65.18	-7.66%	25.83%
CPO (Malaysia)	4,198.00	-4.55%	46.83%
Coal (New Castle)	170.90	-1.07%	112.30%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	907.88	0.43%	-6.85%
XIIT	IDX30	479.13	0.51%	-7.58%
XIJI	JII	550.80	-1.60%	-13.91%
XISI	SMInfra18	311.07	0.47%	-6.30%
XISR	SriKehati	340.87	1.09%	-10.13%
XIHD	IDXHIDIV20	432.55	-0.08%	-5.84%
XIPI	Pefindo I-Grade	163.52	0.61%	-5.19%
XIML	MSCI Indo Large Cap	232.58	1.53%	-8.37%
XIID	IDX30	464.15	0.49%	-7.83%
XIFE	FTSE ESG Indonesia	92.74	0.87%	-
XIIC	Consumer Related	882.82	0.00%	-14.65%
XIIF	Rate Sensitive	477.37	0.10%	-18.90%
XISC	BUMN Stocks	632.25	-1.26%	-17.18%
XISB	Sovereign Bonds	443.26	0.24%	-0.64%

Conventional				
RDMP	Equity	865.08	-2.60%	-18.17%
RPCF	Balanced	2,595.67	-1.89%	-13.06%
RDPU 2	Money Market	1,319.11	0.07%	2.69%

## Summary of Investment Characteristics &amp; 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	48.9	14.9	9.1	0.42	16.8	2.7	1.17
2 XIIT	29.5	51.3	9.2	9.5	0.36	16.9	2.9	1.16
3 XISC	17.5	41.5	14.5	15.9	10.65	15.2	3.3	1.36
4 XISR	24.9	66.8	3.3	4.9	0.15	16.1	3.0	1.13
5 XIIF	12.8	55.4	30.3	0.0	1.51	18.9	2.4	1.27
6 XISI	53.2	15.0	19.9	11.5	0.42	14.9	3.4	1.21
7 XIPI	19.2	60.6	15.9	3.5	0.82	19.4	2.4	1.18
8 XIIC	33.8	38.2	18.7	3.2	6.05	20.1	2.4	1.03
9 XIHD	30.4	53.8	4.5	10.9	0.38	15.7	3.2	1.14
10 XIJI	44.1	4.3	34.2	16.9	0.53	18.9	2.5	1.07
11 XI ML	19.2	73.7	4.2	2.8	0.14	16.0	3.2	1.15
12 XIID	29.5	51.4	9.2	9.5	0.35	16.9	2.9	1.16
13 XIFE	31.5	56.5	5.6	6.0	0.41	16.1	3.0	1.09
<b>Index</b>								
IDX80	31.2	39.8	18.6	10.4		14.7	2.7	
JCI	31.9	40.6	18.6	8.9		17.1	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 &amp; Oil Mining, Plantation and Misc. Industries

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