

US inflation slows (as expected) but consumer sentiment plummets

Global equity markets, led by US & European markets, marched to record highs amid a global Covid resurgence as inflation fears seem to be diminishing while corporate earnings results are strong and economies are recovering. However, the stock market performances in Asia and Emerging Markets continued to lag Developed Market peers as China's regulatory crackdown is bearing down on the tech sector. US headline/core consumer prices rose 0.5%/0.3% MoM in July, respectively, (and 5.4%/4.3% YoY, respectively), which are in line with consensus expectations and are a marked deceleration from 0.9% MoM in June. However, the rises in US producer prices of 1% MoM in July were higher than expected (cons.: 0.6%) although markets are unaffected by this data as inflation fears are diminishing. The US weekly initial jobless claims of 375K also came as expected. Meanwhile, US consumer sentiment plummeted to its lowest level in a decade, according to a University of Michigan's consumer survey, whose index dropped to 70.2 in August, from 81.2 in July - this sharp fall in the consumer sentiment index was exceeded only two times in the past 50 years: 1) during the depths of the 2008 global financial crisis, and 2) during the first shutdowns in April 2020 at the beginning of the pandemic.

In Indonesia, JCI fell 1.03% on the back of foreign portfolio flows reversing to net sells of Rp245Bn in equity market and Rp2.5Tn in bond market. Dragging the market down were the steep correction in the newly listed shares of BUKA, which dragged the whole technology sector down by 7.45%, and the significant falls of key stocks in healthcare, consumer, banking, infrastructure and property & construction sectors. Meanwhile, the few gainers include major stocks in the coal and metals mining, auto, cement and poultry sectors.

The Week Ahead – FOMC Minutes, Indonesia Trade Balance, BI Meeting

The key economic calendar to watch out for next week include US Retail Sales (Tue 19:30), US Industrial Production (Tue 20:15), Indonesia Trade Balance (Wed 11:00), US Housing Starts (Wed 19:30), FOMC Minutes (Thu 01:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30).

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 14.8x and 15.2x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 16.8x), XIML (at 15.8x) and XIPI (at 19.2x), 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	35,515.38	0.87%	16.04%
S&P 500	4,468.00	0.71%	18.95%
Nasdaq	14,822.90	-0.09%	15.01%
FTSE 100	7,218.71	1.34%	11.74%
DAX	15,977.44	1.37%	16.46%
Nikkei 225	27,977.15	0.56%	1.94%
Hang Seng	26,391.62	0.81%	-3.08%
Shanghai	3,516.30	1.68%	1.24%
EIDO	20.76	1.57%	-11.36%

JCI Sector Indices	Last	1W	YTD
Industrials	978.11	2.71%	5.30%
Transportation	1,089.50	2.37%	14.29%
Consumer Cyclical	805.63	1.81%	8.45%
Energy	766.92	1.35%	-2.03%
Consumer Non-Cyclicals	669.92	-0.52%	-15.31%
Basic Materials	1,164.32	-0.62%	-5.56%
Property & Real Estate	803.81	-1.00%	-15.90%
JCI	6,139.49	-1.03%	2.68%
Infrastructures	925.00	-1.10%	7.25%
Financials	1,392.33	-1.25%	10.46%
Healthcare	1,324.54	-1.60%	1.08%
Technology	11,103.96	-7.45%	896.96%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.21	0 bps	9 bps
UST 10Y Yield	1.28	-1 bps	37 bps
Ind GB 10Y Yield	6.37	-19 bps	48 bps
USDIDR	14,388	35	338
CDS Indo 5Y	74.82	-3.78	7.30

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-244.98Bn	+6.71Tn
Government Bond Market(Rp)	-2.48Tn	+1.24Tn

Commodities	Last	1W	YTD
WTI	68.03	1.03%	42.17%
Brent	70.59	0.82%	37.61%
CPO (Malaysia)	4,495.00	5.17%	54.47%
Coal (New Castle)	171.25	6.40%	112.73%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	904.03	0.86%	-7.25%
XIIT	IDX30	476.68	0.73%	-8.05%
XIJI	JII	559.77	-0.23%	-12.51%
XISI	SMInfra18	309.60	0.88%	-6.74%
XISR	SriKehati	337.19	1.08%	-11.10%
XIHD	IDXHIDIV20	432.90	0.97%	-5.77%
XIPI	Pefindo I-Grade	162.52	-0.11%	-5.77%
XIML	MSCI Indo Large Cap	229.09	1.15%	-9.75%
XIID	IDX30	461.87	0.70%	-8.29%
XIFE	FTSE ESG Indonesia	91.94	0.94%	-
XIIC	Consumer Related	882.80	-0.87%	-14.65%
XIIF	Rate Sensitive	476.90	-0.69%	-18.98%
XISC	BUMN Stocks	640.34	-0.33%	-16.12%
XISB	Sovereign Bonds	442.22	-0.35%	-0.88%

Conventional	Last	1W	YTD	
RDMP	Equity	888.20	-1.31%	-15.98%
RPCF	Balanced	2,645.62	-1.01%	-11.39%
RDP2	Money Market	1,318.19	0.08%	2.62%

Summary of Investment Characteristics & 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	26.6	48.3	14.9	9.8	0.44	16.8	2.8	1.17
2 XIIT	29.4	50.7	9.1	10.3	0.38	16.8	2.9	1.16
3 XISC	17.3	40.9	14.9	16.7	10.24	15.2	3.3	1.36
4 XISR	25.0	66.3	3.2	5.3	0.16	15.9	3.1	1.13
5 XIIF	12.4	55.0	31.0	0.0	1.58	18.7	2.5	1.27
6 XISI	52.3	15.0	19.8	12.5	0.45	14.8	3.4	1.21
7 XIPI	19.0	60.3	16.2	3.7	0.85	19.2	2.4	1.18
8 XIIC	34.2	37.6	18.7	3.4	6.11	20.0	2.4	1.03
9 XIHD	30.3	53.1	4.3	11.9	0.40	15.6	3.2	1.14
10 XIJI	43.3	4.7	33.7	17.8	0.55	19.2	2.4	1.07
11 XIIML	19.2	73.4	4.2	3.1	0.23	15.8	3.2	1.15
12 XIID	29.5	50.8	9.1	10.3	0.38	16.8	2.9	1.16
13 XIFE	31.6	55.9	5.5	6.6	0.44	16.0	3.0	1.09
Index								
IDX80	31.2	39.2	18.5	11.1		14.8	2.7	
JCI	32.5	39.9	18.4	9.2		17.4	1.7	

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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