

Strong job growth and service sector expansions boosted stock markets

US and European stock markets rose to new highs amid strong earnings results, strong service sector expansions in US as well as China, and a blowout US jobs report. Asian markets recovered strongly despite ongoing concerns on China's regulatory crackdown of the tech sector and the spread of Covid delta variant. US stock indices initially fell on Wednesday after ADP employment change data of private-sector jobs reported growth of only 330K in July, which is well below consensus (695K), despite a positive surprise from ISM Non-Manufacturing PMI data of 64.1 in July (cons: 60.5). However, US stocks recovered after the weekly jobless claims of 385K matched expectation while July non farm payrolls growth of 943K exceeded consensus (870K), lowering US unemployment rate to 5.4% (cons: 5.7%). In Asia, stock markets recovered after China's Caixin Services PMI of 54.9 in July beat expectations (50.3). Meanwhile, in bond market the strong US jobs report has lifted 10-yr UST yield to 1.29% (+5bps). In the week ahead, inflation will be a key focus for markets with reports expected on US consumer and producer level inflation. Fed Chairman Powell has signalled that the central bank may wait until November to formally announce when tapering will begin.

In Indonesia, JCI gained 2.20% on the back of returning foreign buying in both equity and bond markets (net inflows of Rp925Bn and Rp10.63Tn, respectively) and release of a higher than expected GDP growth of 7.07% YoY (+3.31% QoQ) in Q2 (vs. 6.57%/2.94% consensus). Driving the JCI higher are big cap stocks in banking, auto, consumer, and cement sectors, while media, retailing, healthcare, telecom, and coal & metals mining stocks are lagging during the week.

The Week Ahead – US Consumer and Producer Level Inflation Rates

The key economic calendar to watch out for next week are Indonesia Consumer Confidence (Mon 10:00) and Retail Sales (Tue 10:00), US Inflation Rate (Wed 19:30), EU Industrial Production (Thu 16:00), US Jobless Claims (Thu 19:30), US Producer Price Index (Thu 19:30), and US Michigan Consumer Sentiment and Expectations (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 2021F P/E of 14.6x and 15.7x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.6x), XIIT (at 16.6x), XIML (at 15.5x) and XIPI (at 19.1x), 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	35,208.51	0.78%	15.04%
S&P 500	4,436.52	0.94%	18.12%
Nasdaq	14,835.76	1.11%	15.11%
FTSE 100	7,122.95	1.29%	10.25%
DAX	15,761.45	1.40%	14.89%
Nikkei 225	27,820.04	1.97%	1.37%
Hang Seng	26,179.40	0.84%	-3.86%
Shanghai	3,458.23	1.79%	-0.43%
EIDO	20.44	1.74%	-12.72%

JCI Sector Indices	Last	1W	YTD
Financials	1,409.95	4.15%	11.86%
Industrials	952.34	2.82%	2.52%
Technology	11,997.72	2.26%	977.21%
JCI	6,203.42	2.20%	3.75%
Consumer Non-Cyclicals	673.41	2.03%	-14.87%
Transportation	1,064.26	1.95%	11.65%
Property & Real Estate	811.91	0.99%	-15.04%
Basic Materials	1,171.62	0.69%	-4.97%
Infrastructures	935.32	0.40%	8.46%
Energy	756.72	-0.44%	-3.34%
Healthcare	1,346.03	-0.89%	2.72%
Consumer Cyclical	791.28	-1.24%	6.51%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.21	3 bps	9 bps
UST 10Y Yield	1.28	5 bps	36 bps
Ind GB 10Y Yield	6.30	-25 bps	42 bps
USDIDR	14,353	-110	303
CDS Indo 5Y	78.74	-1.27	11.23

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+925.05Bn	+6.95Tn
Government Bond Market(Rp)	+10.63Tn	+2.50Tn

Commodities	Last	1W	YTD
WTI	69.79	-5.33%	43.84%
Brent	72.14	-3.99%	39.27%
CPO (Malaysia)	4,274.00	-2.11%	46.87%
Coal (New Castle)	160.25	4.91%	99.07%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	896.33	2.38%	-8.04%
XIIT	IDX30	473.23	2.31%	-8.72%
XIJI	JII	561.04	1.25%	-12.31%
XISI	SMInfra18	306.89	0.45%	-7.56%
XISR	SriKehati	333.60	3.45%	-12.05%
XIHD	IDXHIDIV20	428.74	2.52%	-6.67%
XIPI	Pefindo I-Grade	162.70	3.63%	-5.67%
XIML	MSCI Indo Large Cap	226.49	3.73%	-10.77%
XIID	IDX30	458.65	2.35%	-8.93%
XIFE	FTSE ESG Indonesia	91.08	2.68%	-
XIIC	Consumer Related	890.59	2.00%	-13.90%
XIIF	Rate Sensitive	480.19	3.74%	-18.42%
XISC	BUMN Stocks	642.45	1.95%	-15.84%
XISB	Sovereign Bonds	443.76	0.01%	-0.53%

Conventional	Last	1W	YTD	
RDMP	Equity	899.99	4.52%	-14.87%
RPCF	Balanced	2,672.73	3.27%	-10.48%
RDP2	Money Market	1,317.19	0.06%	2.54%

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	27.1	48.2	14.7	9.3	0.65	16.6	2.8	1.12
2 XIIT	30.0	50.6	8.7	9.8	0.88	16.6	3.0	1.17
3 XISC	17.2	41.7	14.7	16.2	10.22	15.7	3.1	1.27
4 XISR	25.5	66.1	3.2	5.1	0.19	15.6	3.0	1.15
5 XIIF	12.3	52.6	31.1	0.0	3.99	16.7	2.7	1.23
6 XISI	53.3	15.2	19.3	11.7	0.48	14.6	3.3	1.13
7 XIPI	19.0	60.1	16.4	3.6	0.87	19.1	2.2	1.19
8 XIIC	38.2	37.1	20.6	3.2	0.94	16.9	2.8	1.10
9 XIHD	32.3	51.6	4.2	11.3	0.52	15.4	3.4	1.15
10 XIJI	43.7	5.3	33.6	16.8	0.58	19.7	2.3	1.09
11 XIIML	19.6	73.1	4.1	2.8	0.33	15.5	3.2	1.16
12 XIID	30.0	50.6	9.1	9.8	0.53	16.6	3.0	1.10
13 XIFE	32.4	55.5	5.4	6.2	0.48	15.8	3.1	1.16
Index								
IDX80	29.6	39.2	20.5	10.6		14.7	2.6	
JCI	29.9	39.7	21.3	9.1		18.5	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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext. 2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext. 2311	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	Ext. 2313	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	Ext. 2314	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	Ext. 2315	0857-9494-5058

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