

Global equity rebound and small-cap surge amid Fed's taper talk

Global stock markets recovered, particularly Emerging Markets (+4.25%) which nearly recouped prior week's losses, while major US stock indices hit new highs despite Thursday's fall amid news of attacks at the Kabul airport in Afghanistan. US technology and small-cap stocks outperformed large-cap peers by a wide margin and within S&P500, energy and financial stocks also outperformed amid 10% rise in oil prices and higher bond yields. This week started positively with FDA's full approval of the Pfizer vaccine on Monday while the highly anticipated speech of Fed Chair Powell at the Jackson Hole conference on Friday turned out to be nonevent. Powell confirmed Fed's plan to begin tapering bond purchases this year but he didn't set a specific date and warned against rushing to tighten monetary policy in response to recent inflation. Core PCE price index, the Fed's preferred inflation measure, rose by 3.6% YoY in July – its highest in 30 years – but its monthly rise of 0.3% MoM was a decline for the second straight month after 0.5% in June and 0.6% in May. Meanwhile, within EM equities, Taiwan, Brazil and China were among best performing markets last week in contrast to Indonesia, which was a laggard.

In Indonesia, JCI was flattish (+0.18%) despite a foreign net buy of Rp811Bn as significant corrections affecting large-cap stocks in banking, infrastructure and basic materials sectors offset the gains in the technology, consumer, healthcare, property and construction sectors and the small-cap stocks.

The Week Ahead – Indonesia-China-US PMI Data, US Jobs Reports

The key economic calendar to watch out for next week include China NBS Manufacturing & Non-Manufacturing PMI (Tue 08:00), EU Inflation (Tue 16:00), Indonesia Manufacturing PMI (Wed 07:30), China Caixin Manufacturing PMI (Wed 08:45), Indonesia Inflation (Wed 11:00), US ADP Employment Change (Wed 19:15), US ISM Manufacturing PMI (Wed 21:00), US Initial Jobless Claims (Thu 19:30), China Caixin Services PMI (Fri 08:45), US Non Farm Payrolls and Unemployment Rate (Fri 19:30), US ISM Non-Manufacturing PMI (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 15.0x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 16.9x), XIML (at 15.8x) and XIPI (at 19.0x), 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	35,455.80	0.96%	15.84%
S&P 500	4,509.37	1.52%	20.06%
Nasdaq	15,129.50	2.82%	17.39%
FTSE 100	7,148.01	0.85%	10.64%
DAX	15,851.75	0.28%	15.55%
Nikkei 225	27,641.14	2.32%	0.72%
Hang Seng	25,407.89	2.25%	-6.70%
Shanghai	3,522.16	2.77%	1.41%
MSCI World	3,133.67	1.74%	16.49%
MSCI Emerging Markets	1,272.67	4.25%	-1.44%

JCI Sector Indices	Last	1W	YTD
Technology	10,765.18	9.54%	866.55%
Healthcare	1,321.80	2.29%	0.87%
Transportation	1,065.34	2.26%	11.76%
Energy	739.90	0.96%	-5.48%
Consumer Non-Cyclicals	653.97	0.95%	-17.33%
Property & Real Estate	802.36	0.65%	-16.04%
Industrials	964.62	0.22%	3.85%
Consumer Cyclicals	793.87	0.21%	6.86%
JCI	6,041.37	0.18%	1.04%
Basic Materials	1,136.63	-0.95%	-7.81%
Financials	1,379.81	-0.96%	9.47%
Infrastructures	910.57	-1.93%	5.59%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.22	-1 bps	10 bps
UST 10Y Yield	1.31	6 bps	40 bps
Ind GB 10Y Yield	6.17	-20 bps	28 bps
USDIDR	14,418	-35	368
CDS Indo 5Y	72.09	-1.76	4.58

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+811.2 Bn	+9.7 Tn
Government Bond Market (Rp)	-2.1 Tn	+80.0 Bn

Commodities	Last	1W	YTD
WTI	68.73	10.29%	41.65%
Brent	71.63	9.90%	38.28%
CPO (Malaysia)	4,329.00	1.50%	51.42%
Coal (New Castle)	171.00	1.94%	112.42%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	897.81	-1.11%	-7.88%
XIIT	IDX30	474.06	-1.06%	-8.56%
XIJI	JII	547.83	-0.54%	-14.38%
XISI	SMInfra18	305.41	-1.82%	-8.00%
XISR	SriKehati	336.39	-1.31%	-11.31%
XIHD	IDXHIDIV20	427.40	-1.19%	-6.96%
XIPI	Pefindo I-Grade	160.81	-1.66%	-6.77%
XIML	MSCI Indo Large Cap	228.96	-1.56%	-9.80%
XIID	IDX30	459.14	-1.08%	-8.83%
XIFE	FTSE ESG Indonesia	91.61	-1.21%	-
XIIC	Consumer Related	879.50	-0.38%	-14.97%
XIIF	Rate Sensitive	474.59	-0.58%	-19.37%
XISC	BUMN Stocks	626.27	-0.95%	-17.96%
XISB	Sovereign Bonds	447.03	0.85%	0.20%

Conventional	Last	1W	YTD	
RDMP	Equity	872.01	0.80%	-17.52%
RPCF	Balanced	2,603.49	0.30%	-12.80%
RDPU 2	Money Market	1,320.07	0.07%	2.77%

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	26.8	48.6	14.9	9.2	0.42	16.7	2.8	1.17
2 XIIT	29.6	51.0	9.3	9.7	0.36	16.8	2.9	1.16
3 XISC	17.3	41.2	14.9	15.9	10.75	15.0	3.3	1.36
4 XISR	25.0	66.6	3.2	5.1	0.12	15.9	3.1	1.13
5 XIIF	12.5	55.0	31.0	0.0	1.45	18.6	2.5	1.27
6 XISI	52.4	15.0	20.2	12.0	0.40	14.6	3.5	1.21
7 XIPI	19.3	60.6	15.7	3.6	0.80	19.0	2.4	1.18
8 XIIC	34.2	37.7	18.8	3.2	6.01	20.0	2.5	1.03
9 XIHD	30.6	53.5	4.6	10.9	0.36	15.6	3.3	1.14
10 XIJI	44.2	4.4	33.8	17.1	0.50	18.8	2.5	1.07
11 XIIML	19.1	73.4	4.3	2.9	0.28	15.8	3.3	1.15
12 XIID	29.7	51.1	9.3	9.7	0.32	16.8	2.9	1.16
13 XIFE	31.6	56.2	5.6	6.2	0.38	16.0	3.0	1.09
Index								
IDX80	31.2	39.5	18.7	10.6		14.9	2.7	
JCI	32.2	40.2	18.6	9.0		17.8	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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