

Growth and inflation worries, September's reputation for a weak month

Global equities retreated, led by US markets, on renewed growth and inflation worries amid rising Covid cases, waning consumer confidence, slowing US jobs growth, and lingering supply-chain disruptions. September's bad reputation for being a weak month for stocks also weighing on sentiment. US economy is now expected to slow to c.5% in Q3 (from 6.6% in Q2), with full-year growth of c.6% for 2021, which is downgraded from previous forecasts of almost 7% growth. Supply-chain bottlenecks proved to be more persistent than initially thought, with widespread labor and material shortages restraining production. Three US auto corporations have recently announced extended plant shutdowns across North America due to global semiconductor shortages, which are expected to last into next year. US producers prices (PPI) were up by 0.7% MoM (8.3% YoY) in August, higher than consensus forecast (0.6%) albeit lower than in the prior 3 months. The higher PPI reading had led to 10-yr UST yield rising 5bps to 1.37% although yield fell back after weekly jobless claims fell more than expected to a new pandemic-era low of 310,000. The US will also face a federal debt ceiling deadline in October. Meanwhile, Asian stock markets were more resilient than global peers this week with large gains in Japan (+4.3%) and China (+3.4%).

In Indonesia, JCI also corrected (-0.52%) despite foreign inflows in both equity (Rp1Tn) and bond markets (+Rp1.61Tn) which has entered a fourth consecutive weeks. Technology stocks remained the biggest drag on the market followed by consumer cyclicals and financials, while automotive, healthcare, metals mining, poultry and property stocks performed relatively well.

The Week Ahead – US Inflation, Indonesia Trade Balance & Auto Sales

The key economic data to focus next week are US Inflation Rate (Tue 19:30), Indonesia Trade Balance (Wed 11:00), Indonesia Automotive Sales (Wed 17:00), EU/US Industrial Production (Wed 16:00/20:15), US Retail Sales (Thu 19:30) and Initial Jobless Claims (Thu 19:30), University of Michigan Surveys of Consumer Expectations and Sentiment (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 14.9x and 15.5x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 17.1x), XIML (at 16.1x) and XIPI (at 18.9x), 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	34,607.72	-2.15%	13.07%
S&P 500	4,458.58	-1.69%	18.70%
Nasdaq	15,115.49	-1.61%	17.28%
FTSE 100	7,029.20	-1.53%	8.80%
DAX	15,609.81	-1.09%	13.78%
Nikkei 225	30,381.84	4.30%	10.70%
Hang Seng	26,205.91	1.17%	-3.76%
Shanghai	3,703.11	3.39%	6.62%
MSCI World	3,122.07	-1.32%	16.06%
MSCI Emerging Markets	1,308.94	-0.53%	1.37%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,372.36	1.03%	4.73%
Industrials	1,027.62	0.92%	10.63%
Property & Real Estate	800.10	0.68%	-16.28%
Consumer Non-Cyclicals	670.10	0.12%	-15.29%
Energy	772.86	0.05%	-1.27%
Infrastructures	931.59	-0.05%	8.02%
Basic Materials	1,153.76	-0.33%	-6.42%
JCI	6,094.87	-0.52%	1.94%
Financials	1,381.37	-0.91%	9.59%
Transportation	1,069.89	-1.32%	12.24%
Consumer Cyclicals	781.06	-1.33%	5.14%
Technology	9,972.05	-3.30%	795.34%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.22	1 bps	9 bps
UST 10Y Yield	1.34	2 bps	43 bps
Ind GB 10Y Yield	6.14	4 bps	25 bps
USDIDR	14,203	-60	153
CDS Indo 5Y	67.91	0.84	0.40

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.00Tn	+12.28Tn
Government Bond Market (Rp)	+1.61Tn	+15.96Tn

Commodities	Last	1W	YTD
WTI	69.71	0.61%	43.67%
Brent	72.92	0.43%	40.77%
CPO (Malaysia)	4,278.00	-0.74%	49.63%
Coal (New Castle)	177.50	-0.84%	120.50%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	922.97	-0.52%	-5.30%
XIIT	IDX30	488.01	-0.47%	-5.87%
XIJI	JII	560.11	-0.51%	-12.46%
XISI	SMInfra18	314.43	-1.35%	-5.29%
XISR	SriKehati	343.90	-0.91%	-9.33%
XIHD	IDXHIDIV20	442.09	-0.60%	-3.77%
XIPI	Pefindo I-Grade	162.51	-1.25%	-5.78%
XIML	MSCI Indo Large Cap	233.14	-0.83%	-8.16%
XIID	IDX30	472.45	-0.48%	-6.19%
XIFE	FTSE ESG Indonesia	93.91	-0.82%	-
XIIC	Consumer Related	909.05	0.19%	-12.11%
XIIF	Rate Sensitive	496.70	0.56%	-15.62%
XISC	BUMN Stocks	653.62	0.88%	-14.38%
XISB	Sovereign Bonds	449.11	-0.01%	0.67%

Conventional				
RDMP	Equity	879.25	-0.80%	-16.83%
RPCF	Balanced	2,617.37	-0.81%	-12.33%
RDPU 2	Money Market	1,321.91	0.07%	2.91%

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	25.7	47.1	14.3	9.4	3.51	16.8	2.7	1.17
2 XIIT	28.4	49.4	8.9	9.9	3.41	17.1	2.9	1.16
3 XISC	17.0	39.7	15.3	17.2	10.88	15.5	3.3	1.36
4 XISR	25.2	62.2	3.5	5.2	3.99	16.1	3.0	1.13
5 XIIF	12.1	53.4	33.0	0.0	1.38	18.8	2.4	1.27
6 XISI	51.3	14.7	19.6	12.4	2.11	14.9	3.4	1.21
7 XIPI	18.6	59.0	14.5	3.6	4.32	18.9	2.4	1.18
8 XIIC	33.5	37.3	19.8	3.3	6.10	20.4	2.4	1.03
9 XIHD	29.1	51.8	4.2	11.3	3.58	15.9	3.2	1.14
10 XIJI	43.9	4.2	32.6	18.1	1.26	18.7	2.4	1.07
11 XIIML	18.9	73.3	4.3	3.1	0.42	16.1	3.2	1.15
12 XIID	28.4	49.4	8.9	9.9	3.30	17.1	2.9	1.16
13 XIFE	31.5	55.7	5.6	6.5	0.68	16.2	3.0	1.09
Index								
IDX80	31.0	39.4	18.5	11.1		15.4	2.6	
JCI	32.4	40.1	18.4	9.1		17.9	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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