

Slowing US jobs growth and rising wages capped equity market gains

Global equities performances were mixed with EM outperforming DM equities this week, partly owing to weaker US dollars, as US growth outlook is clouded by slowing jobs growth and the impact of Covid delta variant particularly on the services sector. Two out of the three US jobs reports released this week showed weaker than expected growth. Payrolls firm ADP's tally of private sector jobs growth of 374K and the Labor Department's non farm payrolls growth of 235K in August both came well below consensus expectations of growth of 613K and 750K, respectively. Only the weekly initial jobless claims of 340K came in line with expectations. In spite of this, US unemployment rate still declined from 5.4% to 5.2%, which is a new pandemic-era low. The slower jobs growth can be attributed to labor supply constraints, which led to rising hourly wages in August (+0.6%). Meanwhile, CB Consumer Confidence Index, published by Conference Board, of 113.8 for August was also lower than expected (July: 129.1), indicating potential slowdown in consumer spending in coming months. Elsewhere, EU's July retail sales growth of 3.1% YoY was weaker than expected (cons.: 4.8%) while inflation of 3.0% YoY in August was above expectations (cons.: 2.7%). The ECB is expected to announce a reduction of its bond buying program (tapering) by end of 2021, similar to Fed's indicated tapering timetable.

In Indonesia, JCI gained (+1.42%) on the back of a sustained foreign net buying (Rp1.58Tn), which was also seen in the bond market (+Rp7.69Tn), and this led to stronger currency. Large cap stocks across diverse sectors (ie. banking, auto, consumer, telecom, basic materials, mining, healthcare) outperformed the small cap stocks, driven by the return of foreign buying.

The Week Ahead – Indonesia Consumer Confidence & Retail Sales

There are only very few economic data to focus next week including Indonesia Consumer Confidence (Wed 11:00) and Retail Sales (Thu 11:00), ECB Interest Rate Decision (Thu 18:45) and Press Conference (Thu 19:30), US Initial Jobless Claims (Thu 19:30), and US PPI (Fri 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 15.1x and 15.6x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.0x), XIIT (at 17.2x), XIML (at 16.3x) 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	35,369.09	-0.24%	15.56%
S&P 500	4,535.43	0.58%	20.75%
Nasdaq	15,363.52	1.55%	19.21%
FTSE 100	7,138.35	-0.14%	10.49%
DAX	15,781.20	-0.45%	15.03%
Nikkei 225	29,128.11	5.38%	6.14%
Hang Seng	25,901.99	1.94%	-4.88%
Shanghai	3,581.73	1.69%	3.13%
MSCI World	3,163.99	0.97%	17.62%
MSCI Emerging Markets	1,315.91	3.40%	1.91%

JCI Sector Indices	Last	1W	YTD
Industrials	1,018.21	5.56%	9.62%
Energy	772.50	4.41%	-1.32%
Healthcare	1,358.39	2.77%	3.66%
Infrastructures	932.01	2.36%	8.07%
Consumer Non-Cyclicals	669.31	2.35%	-15.39%
Basic Materials	1,157.57	1.84%	-6.11%
Transportation	1,084.17	1.77%	13.74%
JCI	6,126.92	1.42%	2.47%
Financials	1,394.08	1.03%	10.60%
Consumer Cyclicals	791.56	-0.29%	6.55%
Property & Real Estate	794.73	-0.95%	-16.84%
Technology	10,312.46	-4.21%	825.90%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.21	-1 bps	9 bps
UST 10Y Yield	1.33	2 bps	41 bps
Ind GB 10Y Yield	6.10	-8 bps	21 bps
USDIDR	14,263	-155	213
CDS Indo 5Y	67.07	-5.02	-0.44

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.58Tn	+11.27Tn
Government Bond Market (Rp)	+7.69Tn	+11.21Tn

Commodities	Last	1W	YTD
WTI	69.10	0.52%	42.42%
Brent	72.61	-0.12%	40.17%
CPO (Malaysia)	4,352.00	0.44%	52.22%
Coal (New Castle)	177.50	3.83%	120.50%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	927.76	3.34%	-4.81%
XIIT	IDX30	490.30	3.43%	-5.42%
XIJI	JII	562.97	2.76%	-12.01%
XISI	SMInfra18	318.73	4.36%	-3.99%
XISR	SriKehati	347.06	3.17%	-8.50%
XIHD	IDXHIDIV20	444.77	4.06%	-3.18%
XIPI	Pefindo I-Grade	164.57	2.34%	-4.58%
XIML	MSCI Indo Large Cap	235.10	2.68%	-7.38%
XIID	IDX30	474.74	3.40%	-5.73%
XIFE	FTSE ESG Indonesia	94.68	3.35%	-
XIIC	Consumer Related	907.35	3.17%	-12.28%
XIIF	Rate Sensitive	493.93	4.07%	-16.09%
XISC	BUMN Stocks	647.89	3.45%	-15.13%
XISB	Sovereign Bonds	449.15	0.48%	0.68%

Conventional				
RDMP	Equity	886.34	1.64%	-16.16%
RPCF	Balanced	2,638.86	1.36%	-11.61%
RDPU 2	Money Market	1,320.94	0.07%	2.83%

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	48.5	14.6	9.5	0.52	17.0	2.7	1.17
2 XIIT	29.6	50.9	9.2	10.0	0.33	17.2	2.8	1.16
3 XISC	17.3	41.0	15.0	16.3	10.38	15.6	3.2	1.36
4 XISR	26.5	64.2	3.6	5.4	0.32	16.3	3.0	1.13
5 XIIF	12.3	54.3	32.1	0.0	1.32	19.0	2.4	1.27
6 XISI	52.4	14.9	19.8	12.6	0.36	15.1	3.3	1.21
7 XIPI	19.2	60.6	15.2	3.7	1.26	19.2	2.4	1.18
8 XIIC	33.9	37.6	19.5	3.3	5.76	20.5	2.4	1.03
9 XIHD	30.5	53.2	4.4	11.6	0.31	16.0	3.2	1.14
10 XIJI	44.3	4.2	32.6	17.7	1.15	18.9	2.4	1.07
11 XI ML	19.1	73.5	4.1	3.1	0.18	16.3	3.2	1.15
12 XIID	29.6	50.9	9.1	10.0	0.27	17.2	2.8	1.16
13 XIFE	31.6	55.9	5.7	6.4	0.34	16.4	2.9	1.09
Index								
IDX80	31.2	39.6	18.4	10.9		15.4	2.6	
JCI	32.9	40.8	17.4	8.9		18.0	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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