

**US fiscal and monetary policy uncertainty weighed on market sentiment**

Global stock markets ended lower for a second week as uncertainty over higher corporate taxes and upcoming Federal Reserve meeting weighed on sentiment. On the fiscal front, Democrats sought to raise the top tax rate for corporations to 26.5% (from 21%) to help fund a proposed infrastructure spending package amid the quickly approaching deadline to raise US debt ceiling on October 1. The focus is also on September 21-22 Fed meeting, which could reveal timeline for reducing its monetary stimulus amid strong economic data. US August retail sales grew at 0.7% MoM, which was stronger than consensus forecast of -0.8%, even as headline and core inflation rates moderated quicker than expected to 0.3% and 0.1% MoM, from 0.5% and 0.3%, respectively, in the prior month. Investors were debating if the resilient US economic recovery amid rising Covid cases would spur Fed to shorten its tapering timeline even if inflation pressures are subsiding. Globally, EM stocks corrected more than DM (-2.26% vs. -0.82%), dragged by a steep fall in China markets amid concerns over tech and casino sector regulations and China Evergrande Group's debt problems. Meanwhile, it was a tale of two halves in bond market as 10-yr UST yields declined after the cooler-than-expected inflation reading but bounced back after stronger-than-expected retail sales.

In Indonesia, JCI rebounded (+0.63%) amid sustained foreign inflows (Rp1.7Tn), which entered its fifth consecutive weeks while bond market saw large outflows (Rp8.6Tn). However, the market rebound was driven by mid & small cap stocks as big cap stocks across banking, consumer, basic materials and mining sectors mostly declined except in the telecommunication sector.

**The Week Ahead – BI Meeting, FOMC Meeting & Economic Projections**

The key economic data releases to focus on next week include BI Rate Decision (Tue 14:30), EU Consumer Confidence (Wed 21:00), US Existing Home Sales (Wed 21:00), Fed Rate Decision and FOMC Economic Projections (Thu 01:00), Markit Manufacturing & Services PMIs for EU (Thu 15:00) and US (Thu 20:45), US Initial Jobless Claims (Thu 19:30), Fed Chair Powell Speech (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 BBBCA, 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 BBBCA. 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 BBBCA 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 15.6x and 16.3x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.2x), XIIT (at 17.3x), XIML (at 16.6x) and XIPI (at 19.8x), 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	34,584.88	-0.07%	13.00%
S&P 500	4,432.99	-0.57%	18.02%
Nasdaq	15,043.97	-0.47%	16.73%
FTSE 100	6,963.64	-0.93%	7.79%
DAX	15,490.17	-0.77%	12.91%
Nikkei 225	30,500.05	0.39%	11.13%
Hang Seng	24,920.76	-4.90%	-8.48%
Shanghai	3,613.97	-2.41%	4.06%
MSCI World	3,096.61	-0.82%	15.11%
MSCI Emerging Markets	1,279.35	-2.26%	-0.92%

JCI Sector Indices	Last	1W	YTD
Transportation	1,158.23	8.26%	21.51%
Infrastructures	968.57	3.97%	12.31%
Energy	788.40	2.01%	0.71%
Consumer Cyclical	794.52	1.72%	6.95%
Technology	10,115.31	1.44%	808.20%
Property & Real Estate	810.72	1.33%	-15.17%
<b>JCI</b>	<b>6,133.25</b>	<b>0.63%</b>	<b>2.58%</b>
Financials	1,385.58	0.30%	9.93%
Healthcare	1,375.92	0.26%	5.00%
Industrials	1,022.90	-0.46%	10.12%
Consumer Non-Cyclicals	665.69	-0.66%	-15.85%
Basic Materials	1,141.56	-1.06%	-7.41%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.23	1 bps	10 bps
UST 10Y Yield	1.36	2 bps	45 bps
Ind GB 10Y Yield	6.14	0 bps	25 bps
USDIDR	14,223	20	173
CDS Indo 5Y	67.41	0.50	-0.10

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+1.68Tn	+13.96Tn
Government Bond Market (Rp)	-8.62Tn	+3.92Tn

Commodities	Last	1W	YTD
WTI	71.96	3.21%	48.31%
Brent	75.34	3.32%	45.44%
CPO (Malaysia)	4,375.00	2.27%	53.03%
Coal (New Castle)	176.00	-0.90%	118.63%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	915.49	-0.81%	-6.07%
XIIT	IDX30	483.75	-0.87%	-6.69%
XIJI	JII	561.67	0.28%	-12.22%
XISI	SMInfra18	315.33	0.29%	-5.02%
XISR	SriKehati	340.81	-0.90%	-10.14%
XIHD	IDXHIDIV20	439.28	-0.64%	-4.38%
XIPI	Pefindo I-Grade	161.82	-0.42%	-6.18%
XIML	MSCI Indo Large Cap	231.68	-0.62%	-8.73%
XIID	IDX30	468.21	-0.90%	-7.03%
XIFE	FTSE ESG Indonesia	93.34	-0.60%	-
XIIC	Consumer Related	902.47	-0.72%	-12.75%
XIIF	Rate Sensitive	495.34	-0.27%	-15.85%
XISC	BUMN Stocks	649.66	-0.61%	-14.90%
XISB	Sovereign Bonds	449.70	0.13%	0.80%

Conventional	Last	1W	YTD	
RDMP	Equity	890.83	1.32%	-15.74%
RPCF	Balanced	2,655.07	1.44%	-11.07%
RDPU 2	Money Market	1,322.92	0.08%	2.99%

## 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	49.4	14.4	9.2	0.32	17.2	2.7	1.17
2 XIIT	29.4	51.7	8.9	9.6	0.36	17.3	2.9	1.16
3 XISC	17.7	41.0	15.5	16.5	9.31	16.3	3.3	1.36
4 XISR	26.2	65.0	3.5	5.1	0.32	16.6	3.0	1.13
5 XIIF	12.9	53.2	32.6	0.0	1.30	19.5	2.5	1.27
6 XISI	52.5	15.7	19.3	12.0	0.46	15.6	3.4	1.21
7 XIPI	19.6	61.9	14.7	3.6	0.29	19.8	2.4	1.18
8 XIIC	34.2	38.6	19.5	3.2	4.41	20.9	2.5	1.03
9 XIHD	30.0	53.7	4.2	11.3	0.86	16.2	3.2	1.14
10 XIJI	44.9	4.3	32.8	17.5	0.56	19.0	2.4	1.07
11 XIIML	19.7	72.5	4.4	3.0	0.32	16.6	3.2	1.15
12 XIID	29.4	51.7	8.9	9.7	0.26	17.3	2.9	1.16
13 XIFE	32.5	55.4	5.4	6.3	0.36	16.5	3.0	1.09
<b>Index</b>								
IDX80	31.7	39.0	18.5	10.8		15.2	2.6	
JCI	32.0	40.8	18.4	8.8		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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