

Evergrande debt exposure fears eased but Fed signals hawkish rate liftoff

Global stocks rebounded from selloffs at beginning of this week as contagion fears from Evergrande's huge US\$300bn debt woes, which is equivalent to 2% of China's GDP, were eased by an announcement that the company had settled its domestic bond payment due this week and assurances from major European banks and UK banking regulator of limited direct exposures to the Chinese firm. This implies the company's international debt does not appear large enough to threaten stability of the global banking system although a bankruptcy could still weigh on global economic growth. Meanwhile, the Fed's signal that it could be ready to start reducing (tapering) its bond purchases as soon as November, if US labor market continues improving, was widely expected. However, economic projections by members of Federal Open Market Committee (FOMC) revealed expectations that interest rate liftoff could begin in late 2022, with median rate forecasts of 1.0% in 2023, 1.8% in 2024, and 2.5% in longer run – this implies a faster interest rate liftoff than expected during the prior FOMC meeting in June. These projections are viewed by investors as a modestly hawkish signal and led to 13bps rise in 10-yr US Treasury yields over the last two trading days to close at 1.46%. Globally, DM outperformed EM equities (+0.22% vs. -1.11%), owing to the fall of the China market, while the prices of crude oils, coal, and palm oil commodities extended their gains this week.

In Indonesia, JCI was up by 0.19% amid continuing foreign inflows (Rp2.75Tn), which entered sixth consecutive weeks, while bond market sustained outflows of Rp6.0Tn, after Rp8.6Tn net sells in prior week. Financials and energy stocks, the two sectors driving up the S&P500 this week, also drove JCI higher, while technology, basic materials, and industrials (auto sector) are the main laggards.

The Week Ahead – Fed Chair Powell Testimony, US Durable Goods Orders

The key economic data releases to focus next week are ECB President Lagarde Speech (Mon 18:45), US Durable Goods Orders (Mon 19:30), Fed Chair Powell Testimony (Tue 21:00), US CB Consumer Confidence (Tue 21:00), China NBS Manufacturing & Non Manufact. PMI (Thu 08:00), China Caixin Manufacturing PMI (Thu 08:45), US Jobless Claims (Thu 19:30), Indonesia Markit Manufacturing PMI (Fri 07:30), Indonesia Inflation Rate (Fri 11:00), EU Inflation Rate (Fri 16:00), US Personal Spending & Income (Fri 19:30), US PCE Price Index (Fri 19:30), and US ISM 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 BBBCA, widely considered as defensive stock at times of uncertainty. Meanwhile, Environmental, Social & Governance (ESG) ETFs globally saw record inflows in 2020 amid pandemic and we expect the trend of investing in ESG to continue. We also like ETF XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefited from foreign inflows.

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 15.9x and 16.5x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.3x), XIIT (at 17.4x), XIML (at 16.7x) and XIPI (at 19.9x), 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	34,798.00	0.62%	13.69%
S&P 500	4,455.48	0.51%	18.62%
Nasdaq	15,047.70	0.02%	16.75%
FTSE 100	7,051.48	1.26%	9.15%
DAX	15,531.75	0.27%	13.22%
Nikkei 225	30,248.81	-0.82%	10.22%
Hang Seng	24,192.16	-2.92%	-11.16%
Shanghai	3,613.07	-0.02%	4.03%
MSCI World	3,103.53	0.22%	15.37%
MSCI Emerging Markets	1,265.10	-1.11%	-2.03%

JCI Sector Indices	Last	1W	YTD
Energy	841.55	6.74%	7.50%
Consumer Cyclical	821.43	3.39%	10.57%
Transportation	1,184.98	2.31%	24.31%
Financials	1,397.33	0.85%	10.86%
Property & Real Estate	814.50	0.47%	-14.77%
JCI	6,144.82	0.19%	2.77%
Consumer Non-Cyclicals	660.61	-0.76%	-16.49%
Healthcare	1,361.90	-1.02%	3.93%
Infrastructures	958.26	-1.06%	11.12%
Industrials	1,005.53	-1.70%	8.25%
Basic Materials	1,118.58	-2.01%	-9.27%
Technology	9,908.12	-2.05%	789.60%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.27	5 bps	15 bps
UST 10Y Yield	1.45	9 bps	54 bps
Ind GB 10Y Yield	6.24	10 bps	35 bps
USDIDR	14,258	35	208
CDS Indo 5Y	77.36	7.55	9.85

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+2.75Tn	+16.70Tn
Government Bond Market (Rp)	-5.97Tn	-2.17Tn

Commodities	Last	1W	YTD
WTI	73.95	2.75%	52.41%
Brent	78.09	3.65%	50.75%
CPO (Malaysia)	4,444.00	4.29%	55.44%
Coal (New Castle)	185.90	4.73%	130.93%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	919.62	0.45%	-5.65%
XIIT	IDX30	485.75	0.41%	-6.30%
XIJI	JII	559.75	-0.34%	-12.51%
XISI	SMInfra18	318.28	0.94%	-4.13%
XISR	SriKehati	343.71	0.85%	-9.38%
XIHD	IDXHIDIV20	443.96	1.07%	-3.36%
XIPI	Pefindo I-Grade	162.95	0.70%	-5.52%
XIML	MSCI Indo Large Cap	234.07	1.03%	-7.79%
XIID	IDX30	470.07	0.40%	-6.66%
XIFE	FTSE ESG Indonesia	93.87	0.57%	-
XIIC	Consumer Related	897.22	-0.58%	-13.26%
XIIF	Rate Sensitive	493.02	-0.47%	-16.24%
XISC	BUMN Stocks	651.09	0.22%	-14.71%
XISB	Sovereign Bonds	446.30	-0.76%	0.04%

Conventional				
RDMP	Equity	885.20	-0.63%	-16.27%
RPCF	Balanced	2,646.28	-0.33%	-11.36%
RDPU 2	Money Market	1,324.10	0.09%	3.08%

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	26.4	49.7	14.1	9.4	0.31	17.3	2.7	1.17
2 XIIT	29.2	52.0	8.6	9.9	0.34	17.4	2.9	1.16
3 XISC	17.3	41.1	15.4	16.4	9.77	16.5	3.2	1.36
4 XISR	26.0	65.1	3.4	5.2	0.29	16.7	3.0	1.13
5 XIIF	12.9	53.2	32.6	0.0	1.25	20.0	2.4	1.27
6 XISI	51.8	16.0	19.1	12.7	0.43	15.9	3.3	1.21
7 XIPI	19.5	62.6	14.2	3.5	0.25	19.9	2.4	1.18
8 XIIC	34.3	38.9	19.3	3.1	4.39	20.9	2.5	1.03
9 XIHD	29.6	53.5	4.1	12.0	0.82	16.4	3.2	1.14
10 XIJI	45.2	4.2	32.1	17.9	0.53	18.9	2.4	1.07
11 XIIML	18.9	73.6	4.1	3.1	0.29	16.7	3.2	1.15
12 XIID	29.3	52.0	8.6	9.9	0.23	17.4	2.9	1.16
13 XIFE	32.2	55.5	5.3	6.6	0.33	16.6	3.0	1.09
Index								
IDX80	31.6	39.1	18.2	11.1		15.2	2.6	
JCI	31.7	41.0	18.0	9.2		17.5	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

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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