

10-yr yields shrug off weak US jobs growth amid global energy crunch

Global stock markets regained prior week's losses but choppy market condition (since July) continues amid renewed surge in yields and energy prices, triggered by an energy crunch in Europe and China. 10-yr UST yields climbed to 1.61% (+15bps) this week amid inflation concerns, shrugging of the weak jobs report. US nonfarm payrolls added only 194K jobs in September (vs. 366K in August), well below consensus expectation of 500K jobs, although unemployment rate fell to 4.8% as prior month's job growth was revised sharply higher. This latest jobs report is not expected to change Fed's outlook for tapering later this year. Meanwhile, coal prices surged to record highs, after tripling so far this year, while natural gas prices have doubled and oil prices rose 60% to \$80 a barrel, its highest level since late 2014. Energy and financial stocks continued to be key drivers of S&P500. Within global equities, including in Emerging Markets (EM), value stocks outperformed growth stocks while large caps generally outpaced small caps. Within EM, Indonesia is among the best performing stock markets this week, followed by Russia and China.

In Indonesia, JCI gained 4.06% on large foreign inflows (Rp10.31Tn), which have been sustained for eight consecutive weeks, while the bond market continued to suffer outflows (Rp4.58Tn) ahead of Fed's tapering announcement expected next month. Large caps outperformed small caps, driven by stocks across most sectors including banking, coal mining & energy, consumer goods, auto, basic materials, telecom and property & construction stocks.

The Week Ahead – US Inflation, FOMC Minutes, Indonesia Trade Balance

The key economic data releases to focus next week are Indonesia Retail Sales (Mon 11:00), EU Industrial Production (Wed 16:00), US Inflation (Wed 19:30), FOMC Minutes (Thu 01:00), US Initial Jobless Claims (Thu 19:30), US Producer Price Index (Thu 19:30), Indonesia Trade Balance (Fri 11:00), US Retail Sales (Fri 19:30), and University of Michigan's Consumer 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 BBKA, widely considered as defensive stock at times of uncertainty. XIPI outperformed other broad-based ETFs due to its overweight of cyclical, 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 BBKA. 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 XIIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which would benefit the most from foreign equity inflows, as seen in the past 2 months.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBKA 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 17.2x and 17.7x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.1x), XIIT (at 18.2x), XIIML (at 18.6x) and XIPI (at 20.8x), 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	34,746.25	1.22%	13.53%
S&P 500	4,391.34	0.79%	16.91%
Nasdaq	14,579.54	0.09%	13.12%
FTSE 100	7,095.55	0.97%	9.83%
DAX	15,206.13	0.33%	10.84%
Nikkei 225	28,048.94	-2.51%	2.20%
Hang Seng	24,837.85	1.07%	-8.79%
Shanghai	3,592.17	0.67%	3.43%
MSCI World	3,043.74	0.69%	13.15%
MSCI Emerging Markets	1,257.04	0.84%	-2.65%

JCI Sector Indices	Last	1W	YTD
Consumer Non-Cyclicals	711.29	6.58%	-10.08%
Energy	1,039.21	4.87%	32.75%
Financials	1,467.91	4.46%	16.46%
JCI	6,481.77	4.06%	8.41%
Transportation	1,250.98	3.63%	31.24%
Basic Materials	1,145.74	3.21%	-7.07%
Industrials	1,107.88	2.87%	19.27%
Property & Real Estate	845.85	2.33%	-11.49%
Consumer Cyclical	848.32	0.90%	14.19%
Technology	9,345.21	0.38%	739.06%
Infrastructures	974.57	-0.15%	13.01%
Healthcare	1,334.72	-0.28%	1.86%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.32	6 bps	20 bps
UST 10Y Yield	1.61	15 bps	70 bps
Ind GB 10Y Yield	6.35	-2 bps	46 bps
USDIDR	14,223	-85	173
CDS Indo 5Y	87.42	6.54	19.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+10.31Tn	+31.50Tn
Government Bond Market (Rp)	-4.58Tn	-9.40Tn

Commodities	Last	1W	YTD
WTI	79.35	4.57%	63.54%
Brent	82.39	3.92%	59.05%
CPO (Malaysia)	4,948.00	9.83%	73.07%
Coal (New Castle)	238.60	4.65%	196.40%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,002.73	6.37%	2.88%
XIIT	IDX30	530.45	6.47%	2.32%
XIJI	JII	595.02	4.79%	-7.00%
XISI	SMInfra18	339.41	2.73%	2.24%
XISR	SriKehati	381.52	7.84%	0.59%
XIHD	IDXHIDIV20	492.40	6.85%	7.19%
XIPI	Pefindo I-Grade	177.50	6.90%	2.91%
XIIML	MSCI Indo Large Cap	258.70	7.59%	1.91%
XIID	IDX30	513.11	6.45%	1.89%
XIFE	FTSE ESG Indonesia	103.25	6.92%	-
XIIC	Consumer Related	962.61	6.37%	-6.94%
XIIF	Rate Sensitive	542.36	6.92%	-7.86%
XISC	BUMN Stocks	709.34	5.89%	-7.08%
XISB	Sovereign Bonds	443.90	-0.33%	-0.50%

Conventional	Last	1W	YTD
RDMP Equity	913.03	3.57%	-13.64%
RPCF Bond	2,711.45	2.84%	-9.18%
RDP2 Money Market	1,325.88	0.06%	3.22%

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	25.8	51.4	12.8	9.7	0.34	18.1	2.5	1.17
2 XIIT	28.5	53.7	7.4	10.0	0.38	18.2	2.6	1.16
3 XISC	17.9	41.6	15.5	16.0	8.94	17.7	2.9	1.36
4 XISR	25.5	65.7	3.2	5.3	0.32	18.4	2.7	1.13
5 XIIF	12.3	53.1	33.5	0.0	1.04	21.4	2.3	1.27
6 XISI	50.1	16.8	18.5	14.1	0.51	17.2	3.1	1.21
7 XIPI	19.0	63.8	13.6	3.4	0.19	20.8	2.2	1.18
8 XIIC	33.2	40.4	19.4	3.0	3.99	21.6	2.3	1.03
9 XIHD	28.3	54.3	3.6	13.0	0.79	17.7	2.9	1.14
10 XIJI	46.0	3.5	29.9	20.1	0.46	18.6	2.2	1.07
11 XIIML	18.5	74.2	3.5	3.3	0.41	18.6	2.9	1.15
12 XIID	28.5	53.6	7.4	10.0	0.34	18.2	2.6	1.16
13 XIFE	31.3	56.4	5.0	6.9	0.33	17.6	2.7	1.09
Index								
IDX80	30.6	40.5	17.4	11.6		16.8	2.4	
JCI	30.9	41.2	17.7	10.2		18.6	1.6	

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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