

US stocks optimism returns but bonds hit by rising inflation concerns

Global stocks rebound continued as US equities rose steadily this week to reach all time highs, driven by strong earnings results and investor optimism amidst elevated inflation concerns. Earnings growth forecast for S&P500 is 32.7% YoY in Q3 2021, revised up from 27.5% at the end of September, as 84% of S&P500 companies that have reported results beat estimates, according to FactSet data. This would be the third highest year-over-year earnings growth reported by the index since 2010. Meanwhile, this week's US economic data were mixed with building permits, housing starts, industrial production came below expectations while existing home sales and weekly jobless claims were better than expected. Elsewhere, China stock markets were up slightly amid a weaker-than-expected GDP growth of 4.9% YoY in Q3 (Q2: 7.9%) as China Evergrande made a delayed coupon payment and avoided default. Globally, Emerging Market stocks gained 0.74%, more modestly than Developed Market stocks (+1.34%), due to a steep fall in Latin America. Meanwhile, global bond prices continued falling this week, (except in Indonesia which benefited from fund outflow reversal), due to rising inflation concerns owing to still rising energy prices and persistent supply chain disruptions. 10-yr UST yields climbed up to 1.64%, which is a five-month high, ahead of Fed tapering of its asset purchases expected to begin next month.

In Indonesia, JCI was relatively flat (+0.16%) despite sustained foreign inflows of Rp3.4Tn, which have entered tenth consecutive weeks while bond market flows reversed to inflows of Rp5.8Tn for the first time after weeks of outflows. Cyclical stocks in banking, transportation, consumer, and property sectors were the key gainers although these were largely offset by corrections in energy, industrials, consumer staples, healthcare, and technology stocks.

The Week Ahead – US GDP Growth, PCE Price Index, Personal Spending

The key economic data releases to focus next week are US New Home Sales & CB Consumer Confidence (Tue 21:00), US Durable Goods Orders (Wed 19:30), ECB Interest Rate Decision (Thu 18:45), US GDP Growth Rate, GDP Price Index & Jobless Claims (Thu 19:30), US Pending Home Sales (Thu 21:00), EU Inflation & GDP Growth Rate (Fri 16:00), US Personal Income & Spending (Fri 19:30), US PCE Price Index (Fri 19:30), US Michigan Consumer Sentiment (Fri 21:00), China NBS Manufacturing & Non-Manufacturing PMI (Sun 08:00).

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, Indonesia country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 has been surpassed this week but we believe there is scope for further market upside given lagging performances of EM (including Indonesia) in comparison to DM equities during 2021.

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 also has an overweight position in cyclical stocks, including in banking and basic materials sectors, and underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from an economic recovery while still maintaining defensiveness through its overweight exposure in BBCA. We also like ETF XIIM (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen in the past 3 months.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	35,677.02	1.08%	16.57%
S&P 500	4,544.90	1.64%	21.00%
Nasdaq	15,090.20	1.29%	17.08%
FTSE 100	7,204.55	-0.41%	11.52%
DAX	15,542.98	-0.28%	13.30%
Nikkei 225	28,804.85	-0.91%	4.96%
Hang Seng	26,126.93	3.14%	-4.05%
Shanghai	3,582.60	0.29%	3.15%
MSCI World	3,151.16	1.34%	17.14%
MSCI Emerging Markets	1,293.14	0.74%	0.15%

JCI Sector Indices	Last	1W	YTD
Financials	1,549.01	2.52%	22.89%
Transportation	1,227.71	2.11%	28.80%
Consumer Cyclical	851.23	1.63%	14.58%
Property & Real Estate	876.98	0.78%	-8.24%
Basic Materials	1,199.05	0.39%	-2.74%
Infrastructures	991.10	0.21%	14.92%
JCI	6,643.74	0.16%	11.12%
Healthcare	1,353.24	-0.12%	3.27%
Technology	8,968.20	-0.67%	705.21%
Consumer Non-Cyclicals	717.14	-2.20%	-9.34%
Industrials	1,089.48	-2.47%	17.29%
Energy	1,001.09	-4.90%	27.88%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.46	6 bps	34 bps
UST 10Y Yield	1.64	7 bps	72 bps
Ind GB 10Y Yield	6.18	-9 bps	24 bps
USDIDR	14,123	48	73
CDS Indo 5Y	83.19	-2.63	15.68

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+3.37Tn	+40.02Tn
Government Bond Market (Rp)	+5.79Tn	-14.75Tn

Commodities	Last	1W	YTD
WTI	83.76	1.80%	72.63%
Brent	85.53	0.79%	65.12%
CPO (Malaysia)	4,923.00	1.32%	72.19%
Coal (New Castle)	228.50	-4.79%	183.85%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,040.24	-0.02%	6.73%
XIIT	IDX30	549.83	-0.06%	6.06%
XIJI	JII	606.13	-0.87%	-5.27%
XISI	SMInfra18	346.20	-0.39%	4.28%
XISR	SriKehati	397.47	0.02%	4.79%
XIHD	IDXHIDIV20	505.96	-0.32%	10.14%
XIPI	Pefindo I-Grade	185.73	0.88%	7.68%
XIIM	MSCI Indo Large Cap	268.26	-0.10%	5.68%
XIID	IDX30	531.54	-0.09%	5.55%
XIFE	FTSE ESG Indonesia	106.67	-0.43%	-
XIIC	Consumer Related	1,005.77	0.63%	-2.76%
XIIF	Rate Sensitive	573.08	0.80%	-2.64%
XISC	BUMN Stocks	746.41	0.55%	-2.22%
XISB	Sovereign Bonds	448.59	0.29%	0.55%

Conventional	Last	1W	YTD
RDMP Equity	921.89	0.84%	-12.80%
RPCF Balanced	2,735.20	0.80%	-8.39%
RDP2 Money Market	1,327.89	0.07%	3.37%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2021F	2021F	
1 RLQ45	25.3	52.3	12.8	9.4	0.30	18.8	2.4	1.17
2 XIIT	27.9	54.7	7.4	9.7	0.34	18.6	2.6	1.16
3 XISC	18.7	44.2	17.3	16.3	3.56	18.4	2.8	1.36
4 XISR	25.1	66.6	3.3	4.8	0.25	19.1	2.6	1.13
5 XIIF	12.1	53.0	32.8	0.0	2.09	22.6	2.2	1.27
6 XISI	49.8	17.6	19.5	12.7	0.45	17.9	2.9	1.21
7 XIPI	19.6	62.7	13.6	3.8	0.27	21.6	2.1	1.18
8 XIIC	31.8	42.2	20.4	3.7	1.98	22.4	2.2	1.03
9 XIHD	27.6	55.9	3.7	12.0	0.72	18.1	2.8	1.14
10 XIJI	46.1	3.5	30.3	19.7	0.39	18.6	2.2	1.07
11 XIML	18.2	75.2	3.4	2.9	0.23	19.3	2.8	1.15
12 XIID	27.9	54.7	7.4	9.8	0.24	18.6	2.6	1.16
13 XIFE	30.8	57.4	5.2	6.4	0.27	18.0	2.6	1.09
Index								
IDX80	32.4	36.5	19.0	12.1		17.0	2.6	
JCI	30.2	42.2	17.8	9.9		19.0	2.3	

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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