

**10-yr yields topped 1.56%, driving stocks down, before easing on Friday**

Global stocks dropped sharply as 10-yr US Treasury yields climbed to as high as 1.56% (+10bps) this week on renewed inflation and interest rate fears and the Fed's slightly more hawkish rate outlook during its September 21-22 meeting. However, equity markets partially recovered on Friday as yields pulled back on the back of US core PCE Price Index showing inflation of 3.6% YoY in August, in line with consensus expectation, while Personal Spending rebounded and grew 0.8% MoM (cons.: 0.6%). Renewed inflation worries have also been driven by a recent surge in oil prices to \$76 per barrel (WTI), or up 23% from its recent low in August, and this may have affected consumer confidence as the Conference Board's consumer confidence index fell to 109.3 (cons.: 114.5), its lowest level in seven months. Rising yields have impacted growth stocks the most, particularly in tech sector, as well as EM bonds, which usually are more prone to monetary policy tightening in developed economies. However, EM equities are showing signs of resilience to Fed's upcoming taper announcement, likely in November, as reflected in the more modest decline of MSCI EM Index (-1.46%) compared to MSCI World Index (-2.60%) this week.

In Indonesia, JCI gained 1.37% on sustained foreign inflows (Rp4.49Tn), which entered its seventh consecutive weeks, while the bond market suffered another week of outflows (Rp5.46Tn). Large cap stocks outperformed JCI, particularly in banking, automotive, telecommunication and energy sectors, while small caps underperformed, particularly in the technology sector, in line with global trend of corrections affecting high growth (high valuation) stocks in recent months.

**The Week Ahead – US Jobs Reports (Private Sector, Non Farm Payrolls)**

The key economic data to focus next week are US ISM Non Manufacturing PMI (Tue 21:00), ECB President Lagarde Speech (Tue 22:00), US ADP (Private Sector) Employment Change (Wed 19:15), ECB Monetary Policy Meeting Accounts (Thu 18:30), US Weekly Initial Jobless Claims (Thu 19:30), China Caixin Services PMI (Fri 08:45), US Non Farm Payrolls and Unemployment Rate (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 15.9x 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                  | 34,326.46 | -1.36% | 12.15% |
| S&P 500               | 4,357.04  | -2.21% | 16.00% |
| Nasdaq                | 14,566.70 | -3.20% | 13.02% |
| FTSE 100              | 7,027.07  | -0.35% | 8.77%  |
| DAX                   | 15,156.44 | -2.42% | 10.48% |
| Nikkei 225            | 28,771.07 | -4.89% | 4.83%  |
| Hang Seng             | 24,575.64 | 1.59%  | -9.75% |
| Shanghai              | 3,568.17  | -1.24% | 2.74%  |
| MSCI World            | 3,022.83  | -2.60% | 12.37% |
| MSCI Emerging Markets | 1,246.60  | -1.46% | -3.46% |

| JCI Sector Indices     | Last            | 1W           | YTD          |
|------------------------|-----------------|--------------|--------------|
| Energy                 | 990.97          | 17.76%       | 26.59%       |
| Industrials            | 1,076.93        | 7.10%        | 15.94%       |
| Consumer Cyclical      | 840.76          | 2.35%        | 13.17%       |
| Transportation         | 1,207.13        | 1.87%        | 26.64%       |
| Infrastructures        | 976.01          | 1.85%        | 13.17%       |
| Property & Real Estate | 826.63          | 1.49%        | -13.50%      |
| <b>JCI</b>             | <b>6,228.85</b> | <b>1.37%</b> | <b>4.18%</b> |
| Consumer Non-Cyclical  | 667.40          | 1.03%        | -15.63%      |
| Financials             | 1,405.21        | 0.56%        | 11.48%       |
| Basic Materials        | 1,110.16        | -0.75%       | -9.95%       |
| Healthcare             | 1,338.49        | -1.72%       | 2.14%        |
| Technology             | 9,309.38        | -6.04%       | 735.84%      |

| Rates and Bonds  | Last   | 1W     | YTD    |
|------------------|--------|--------|--------|
| UST 2Y Yield     | 0.27   | 0 bps  | 14 bps |
| UST 10Y Yield    | 1.47   | 1 bps  | 55 bps |
| Ind GB 10Y Yield | 6.36   | 12 bps | 47 bps |
| USDIDR           | 14,308 | 50     | 258    |
| CDS Indo 5Y      | 81.69  | 1.88   | 14.18  |

| Foreign Fund Flows          | 1W      | YTD      |
|-----------------------------|---------|----------|
| Equity Regular Market (Rp)  | +4.49Tn | +21.19Tn |
| Government Bond Market (Rp) | -5.46Tn | -12.13Tn |

| Commodities       | Last     | 1W     | YTD     |
|-------------------|----------|--------|---------|
| WTI               | 75.74    | 2.38%  | 56.10%  |
| Brent             | 79.28    | 1.52%  | 53.05%  |
| CPO (Malaysia)    | 4,511.00 | 1.58%  | 57.78%  |
| Coal (New Castle) | 218.00   | 20.11% | 170.81% |

| Funds and ETFs | Last                | 1W     | YTD    |         |
|----------------|---------------------|--------|--------|---------|
| ETF            | Theme               |        |        |         |
| RLQ45          | LQ45                | 942.67 | 2.51%  | -3.28%  |
| XIIT           | IDX30               | 498.24 | 2.57%  | -3.89%  |
| XIJI           | JII                 | 567.80 | 1.44%  | -11.26% |
| XISI           | SMInfra18           | 330.40 | 3.81%  | -0.48%  |
| XISR           | SriKehati           | 353.79 | 2.93%  | -6.72%  |
| XIHD           | IDXHIDIV20          | 460.82 | 3.80%  | 0.31%   |
| XIPI           | Pefindo I-Grade     | 166.04 | 1.89%  | -3.73%  |
| XIML           | MSCI Indo Large Cap | 240.45 | 2.72%  | -5.28%  |
| XIID           | IDX30               | 482.03 | 2.55%  | -4.28%  |
| XIFE           | FTSE ESG Indonesia  | 96.57  | 2.87%  | -       |
| XIIC           | Consumer Related    | 904.93 | 0.86%  | -12.51% |
| XIIF           | Rate Sensitive      | 507.26 | 2.89%  | -13.82% |
| XISC           | BUMN Stocks         | 669.87 | 2.88%  | -12.25% |
| XISB           | Sovereign Bonds     | 445.36 | -0.21% | -0.17%  |

| Conventional | Last         | 1W       | YTD    |         |
|--------------|--------------|----------|--------|---------|
| RDMP         | Equity       | 881.54   | -0.41% | -16.61% |
| RPCF         | Balanced     | 2,636.56 | -0.37% | -11.69% |
| RDPU 2       | Money Market | 1,325.03 | 0.07%  | 3.15%   |

## Summary of Investment Characteristics &amp; 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        |
| <b>Index</b>      |                                       |                |               |             |      |               |                      |             |
| 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 &amp; Oil Mining, Plantation and Misc. Industries

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