

US retail resilience amid delta variant's spread, strong Q3 earnings season

Global stock markets extended gains this week, driven by strong US economic data and earnings releases amidst persistent inflation, supply chain disruptions and rising energy costs. US retail sales grew 0.7% MoM in September (+13.9% YoY), well ahead of consensus estimate of -0.2%, showing resilience in the face of the coronavirus delta variant's spread and despite low consumer sentiment. US weekly jobless claims fell to a new pandemic-era low of 293,000, also better than expected. September's core CPI inflation of 0.2% MoM (+4% YoY) came in line, although headline inflation (0.4% MoM; 5.4% YoY) were above consensus, while PPI inflation was lower than expected. Supply chain disruptions remain a key issue but the White House has announced measures to relieve congestions at major ports. Stock markets were also boosted by strong Q3 earnings season with 83% of the 41 companies in S&P500 that have reported earnings to date beat analyst estimates. Meanwhile, FOMC Minutes confirmed Fed could begin tapering of asset purchases in November with monthly reductions of US\$15 Bn from the current pace of its liquidity injection of US\$120 Bn a month. 10-yr UST yields have climbed up in recent weeks amid rising inflation concerns driven by an energy crunch in Europe and Asia, which has driven the prices of crude oils, natural gas and coal to their record highs.

In Indonesia, JCI gained 2.34% on the back of foreign inflows (Rp5.15Tn), which have entered its ninth consecutive weeks, while the bond market continued to suffer from fund outflows (-Rp2.9Tn) ahead of Fed's tapering announcement expected next month. Large cap stocks in banking, consumer, basic materials and property sectors were key drivers while technology, transportation and consumer cyclicals stocks were laggards.

The Week Ahead – China GDP Growth, BI Meeting, Markit PMIs for US/EU

The key economic data releases to focus next week are China GDP Growth Rate (Mon 09:00), US Industrial Production (Mon 20:15), BI Rate Decision (Tue 14:30), US Initial Jobless Claims (Thu 19:30), EU Markit Manufacturing & Services PMIs (Friday 15:00), US Markit Manufacturing & Services PMIs (Fri 20:45).

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. Meanwhile, Environmental, Social & Governance (ESG) ETFs globally saw record inflows in 2020 amid the 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 should benefit the most from foreign equity inflows, as seen in the past 2 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. In comparison, we view our broad-based ETFs, including ESG ETFs (XIIML, XIFE), are best suited for core investments. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	35,294.76	1.58%	15.32%
S&P 500	4,471.37	1.82%	19.04%
Nasdaq	14,897.34	2.18%	15.59%
FTSE 100	7,234.03	1.95%	11.97%
DAX	15,587.36	2.51%	13.62%
Nikkei 225	29,068.63	3.64%	5.92%
Hang Seng	25,330.96	1.99%	-6.98%
Shanghai	3,572.37	-0.55%	2.86%
MSCI World	3,109.47	2.16%	15.59%
MSCI Emerging Markets	1,283.67	2.12%	-0.59%

JCI Sector Indices	Last	1W	YTD
Basic Materials	1,194.39	4.25%	-3.12%
Consumer Non-Cyclicals	733.28	3.09%	-7.30%
Financials	1,510.97	2.93%	19.87%
Property & Real Estate	870.16	2.87%	-8.95%
JCI	6,633.34	2.34%	10.94%
Healthcare	1,354.82	1.51%	3.39%
Infrastructures	988.99	1.48%	14.68%
Energy	1,052.69	1.30%	34.47%
Industrials	1,117.04	0.83%	20.25%
Consumer Cyclicals	837.55	-1.27%	12.74%
Technology	9,028.76	-3.39%	710.64%
Transportation	1,202.36	-3.89%	26.14%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.36	4 bps	24 bps
UST 10Y Yield	1.54	-7 bps	63 bps
Ind GB 10Y Yield	6.34	-1 bps	45 bps
USDIDR	14,075	-148	25
CDS Indo 5Y	85.89	5.01	18.38

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+5.15Tn	+36.64Tn
Government Bond Market (Rp)	-2.91Tn	-20.21Tn

Commodities	Last	1W	YTD
WTI	82.28	3.69%	69.58%
Brent	84.86	3.00%	63.82%
CPO (Malaysia)	4,971.00	0.10%	73.87%
Coal (New Castle)	245	2.68%	204.35%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,040.41	3.76%	6.75%
XIIT	IDX30	550.14	3.71%	6.12%
XIJI	JII	611.44	2.76%	-4.44%
XISI	SMInfra18	347.55	2.40%	4.69%
XISR	SriKehati	397.4	4.16%	4.78%
XIHD	IDXHIDV20	507.57	3.08%	10.49%
XIPI	Pefindo I-Grade	184.11	3.73%	6.75%
XIIML	MSCI Indo Large Cap	268.52	3.80%	5.78%
XIID	IDX30	531.99	3.68%	5.64%
XIFE	FTSE ESG Indonesia	107.14	3.76%	-
XIIC	Consumer Related	999.46	3.83%	-3.37%
XIIF	Rate Sensitive	568.53	4.82%	-3.41%
XISC	BUMN Stocks	742.33	4.65%	-2.76%
XISB	Sovereign Bonds	447.29	0.76%	0.26%

Conventional	Last	1W	YTD
RDMP Equity	914.24	0.13%	-13.52%
RPCF Balanced	2,713.59	0.08%	-9.11%
RDPU 2 Money Market	1,326.97	0.08%	3.30%

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	51.9	12.7	9.8	0.31	18.8	3.6	1.17
2 XIIT	27.9	54.2	7.4	10.2	0.36	18.9	3.8	1.16
3 XISC	18.7	42.8	17.9	17.0	3.59	18.4	2.8	1.36
4 XISR	25.2	66.1	3.3	5.1	0.28	19.4	4.2	1.13
5 XIIF	12.1	52.7	33.7	0.0	1.43	22.5	3.8	1.27
6 XISI	49.4	17.1	19.4	13.6	0.47	17.9	3.0	1.21
7 XIPI	18.6	64.2	13.3	3.7	0.16	21.7	3.7	1.18
8 XIIC	32.0	41.7	20.7	3.7	1.81	22.6	3.5	1.03
9 XIHD	27.6	55.2	3.7	12.8	0.74	18.4	4.2	1.14
10 XIJI	46.0	3.4	29.7	20.4	0.42	18.9	2.2	1.07
11 XIIML	18.2	74.9	3.4	3.1	0.31	19.6	4.4	1.15
12 XIID	27.9	54.2	7.4	10.2	0.28	18.9	3.8	1.16
13 XIFE	30.8	57.0	5.2	6.7	0.30	18.3	3.8	1.09
Index								
IDX80	32.5	36.0	18.8	12.8		17.4	2.6	
JCI	30.4	41.7	17.6	10.3		19.1	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

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