

Strong US economic data amid inflation fears, Covid lockdowns in Europe

Global stock markets ended mixed, as also major US stock indices, as investors weighed strong economic data in US against inflation fears, rising Covid cases, and renewed lockdowns in Europe. Globally, Developed Market stocks (-0.12%) outperformed Emerging Market equities (-1.26%) this week, particularly in Latin America and EMEA regions. US stocks benefited from a stronger than expected retail sales growth of 1.7% MoM in October (cons.: 1.4%), which was achieved amid an upwardly revised 0.8% rise in previous month - this was the strongest growth since March albeit also due to inflation (rising gasoline prices). Industrial production grew 1.6% MoM in October, also ahead of consensus expectations (0.7%). Meanwhile, 10-yr US Treasury yields initially climbed to 1.63% amid the strong economic data, which raised concerns about the pace of Fed's monetary policy normalization, but yields ended slightly down amid in-line jobless claims data as investors awaited President Biden's Fed chair decision (between Jerome Powell and Lael Brainard). In Europe, stocks were little changed amid surging Covid cases, renewed lockdowns and dovish comments from ECB which pushed back against rate increases as inflation pressures are viewed as temporary.

In Indonesia, JCI gained 1.04% this week amid small foreign outflows (Rp325Bn) while bond market outflows also eased to Rp340Bn after strong foreign selling in the months ahead of Fed tapering. IDR bond yields have been very resilient, rising only 15bps so far in 2021, as strong domestic demand neutralised foreign selling. The JCI gains were driven by select large cap stocks in telecom, banking, auto, consumer, basic materials sectors, in addition to small & mid cap stocks in transportation, technology and energy sectors.

The Week Ahead – EU/US Market PMIs, US PCE Price Index, FOMC Minutes

The key economic events and data releases to focus next week are Markit PMIs data for EU (Tue 16:00) and US (Tue 21:45), US Durable Goods Orders & Initial Jobless Claims (Wed 20:30), US PCE Price Index, Personal Income and Personal Spending (Wed 22:00), US New Home Sales (Wed 22:00), US FOMC Minutes (Thu 02:00), Indonesia Motorbike Sales (Thu 17:00), and ECB Monetary Policy Meeting Accounts (Thu 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, Indonesia's country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 has been achieved but we believe there is scope for further upside (our 2022 JCI target is 7,400) given lagging performances of EM (including Indonesia) in comparison to DM equities.

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 XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen during the past four 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	35,601.98	-1.38%	16.32%
S&P 500	4,697.96	0.32%	25.08%
Nasdaq	16,057.44	1.24%	24.59%
FTSE 100	7,223.57	-1.69%	11.81%
DAX	16,159.97	0.41%	17.79%
Nikkei 225	29,745.87	0.46%	8.39%
Hang Seng	25,049.97	-1.10%	-8.01%
Shanghai	3,560.37	0.60%	2.51%
MSCI World	3,219.90	-0.12%	19.70%
MSCI Emerging Markets	1,269.22	-1.26%	-1.71%

JCI Sector Indices	Last	1W	YTD
Transportation	1,433.12	5.07%	50.35%
Technology	9,495.28	1.30%	752.53%
Energy	1,041.43	1.12%	33.03%
Basic Materials	1,248.63	1.06%	1.28%
Financials	1,569.87	1.04%	24.55%
JCI	6,720.26	1.04%	12.40%
Consumer Cyclical	874.20	0.87%	17.68%
Consumer Non-Cyclical	703.36	0.85%	-11.08%
Infrastructures	991.54	0.72%	14.98%
Healthcare	1,421.39	0.25%	8.47%
Industrials	1,083.34	0.16%	16.63%
Property & Real Estate	861.91	-0.26%	-9.81%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.51	-1 bps	39 bps
UST 10Y Yield	1.55	-2 bps	63 bps
Ind GB 10Y Yield	6.03	-2 bps	15 bps
USDIDR	14,238	2	188
CDS Indo 5Y	77.72	-6.47	10.21

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-325.03Bn	+42.98Tn
Government Bond Market (Rp)	-0.34Tn	-47.99Tn

Commodities	Last	1W	YTD
WTI	80.79	-0.59%	66.51%
Brent	82.17	-0.69%	58.63%
CPO (Malaysia)	4,937.00	1.17%	72.68%
Coal (New Castle)	153.00	-1.54%	90.06%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,019.73	1.41%	4.63%
XIIT	IDX30	540.30	1.74%	4.22%
XIJI	JII	603.38	2.11%	-5.70%
XISI	SMInfra18	338.60	0.64%	1.99%
XISR	SriKehati	393.40	1.55%	3.72%
XIHD	IDXHIDIV20	498.56	1.53%	8.53%
XIPI	Pefindo I-Grade	184.03	1.84%	6.70%
XIML	MSCI Indo Large Cap	263.76	1.39%	3.91%
XIID	IDX30	527.77	1.72%	4.80%
XIFE	FTSE ESG Indonesia	105.39	1.09%	-
XIIC	Consumer Related	1,012.57	2.03%	-2.11%
XIIF	Rate Sensitive	568.78	1.54%	-3.37%
XISC	BUMN Stocks	721.75	0.91%	-5.46%
XISB	Sovereign Bonds	452.42	0.20%	1.41%

Conventional	Last	1W	YTD	
RDMP	Equity	943.32	3.77%	-10.77%
RPCF	Balanced	2,788.94	3.18%	-6.59%
RDPU 2	Money Market	1,331.48	0.07%	3.65%

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	26.2	50.1	13.4	9.8	0.55	18.1	3.6	1.17
2 XIIT	29.0	52.6	7.6	10.3	0.56	18.3	3.8	1.16
3 XISC	19.3	43.8	17.0	16.6	3.38	17.5	2.8	1.36
4 XISR	25.5	66.2	3.3	4.7	0.35	18.6	4.2	1.13
5 XIIF	12.0	52.8	33.3	0.0	1.87	21.8	3.7	1.27
6 XISI	52.2	16.9	18.9	11.6	0.38	17.3	3.0	1.21
7 XIPI	20.6	61.4	13.5	4.2	0.28	21.5	3.7	1.18
8 XIIC	32.1	41.3	20.6	4.2	1.75	21.8	3.6	1.03
9 XIHD	28.9	54.4	3.9	12.1	0.76	17.5	4.3	1.14
10 XIJI	46.5	3.4	29.9	19.9	0.27	18.5	2.2	1.07
11 XIIML	18.4	75.2	3.2	2.8	0.30	18.8	4.5	1.15
12 XIID	29.0	52.8	7.6	10.3	0.27	18.3	3.8	1.16
13 XIFE	30.7	57.3	5.3	6.2	0.38	17.5	3.9	1.09
Index								
IDX80	32.4	36.4	18.9	12.3		17.3	2.6	
JCI	30.0	42.0	18.0	10.0		19.3	2.2	

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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