

US upbeat earnings amidst slowing economy, moderating inflation

Global equities maintained upward momentum as US stocks rose to new highs this week, driven by upbeat earnings outlook and progress on President Biden's spending bill in Congress, which does not include raising corporate or personal taxes directly. Stocks also moved up on the day economic data showed US GDP sequential growth slowing to an annualized rate of 2.0% in Q3 (vs. 6.7% in Q2), below consensus estimate (2.7%), due to supply chain disruptions and spread of the Covid delta variant. Other economic data was mixed with an unexpected decline in pending home sales while jobless claims fell more than expected to a pandemic-era low of 281K (cons: 290K). Core PCE prices, which is an inflation measure preferred by Fed, grew at a steady pace of 3.6% YoY (+0.2% MoM) in September 2021, below expectations of 3.7%. Slowing economy, coupled with moderating inflation, contributed to lowering 10-yr UST yields to 1.56% (-7bps). Meanwhile, Q3 earnings growth of S&P500 is revised up to 39.2% YoY, from 32.7% in the previous week, as 82% of the 279 companies that have reported earnings to date beat estimates, according to Refinitiv. However, stock market uptrend in Developed Markets (+0.75%) is not matched by Emerging Markets, which on average fell 2.2% this week, due to corrections across various regions, particularly for China stocks.

In Indonesia, JCI also corrected (-0.79%) this week as foreign inflows slowed to Rp743Bn, after 10 consecutive weeks of much stronger inflows, while the bond market reverted back to experiencing large foreign outflows (Rp7.24Tn), ahead of the Fed's taper decision expected in November. Technology and healthcare stocks were the key gainers while consumer staple stocks performed the worst this week.

The Week Ahead – Indo GDP Growth, Fed Meeting, US Non Farm Payrolls

The key economic data releases to focus next week include Indonesia Manufacturing PMI (Mon 07:30), China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 21:00), US ADP (Private Sector) Employment Change (Wed 19:15), US Factory Orders and ISM Non-Manufacturing PMI (Wed 21:00), US Fed Interest Rate Decision (Thu 01:00), US Jobless Claims (Thu 19:30), Indonesia GDP Growth (Fri 11:00), 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, Indonesia country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 is nearly 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 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	35,819.56	0.40%	17.03%
S&P 500	4,605.38	1.33%	22.61%
Nasdaq	15,498.39	2.71%	20.25%
FTSE 100	7,237.57	0.46%	12.03%
DAX	15,688.77	0.94%	14.36%
Nikkei 225	28,892.69	0.30%	5.28%
Hang Seng	25,377.24	-2.87%	-6.81%
Shanghai	3,547.34	-0.98%	2.14%
MSCI World	3,174.73	0.75%	18.02%
MSCI Emerging Markets	1,264.75	-2.20%	-2.05%

JCI Sector Indices	Last	1W	YTD
Technology	9,404.79	4.87%	744.41%
Healthcare	1,404.01	3.75%	7.14%
Consumer Cyclical	852.02	0.09%	14.69%
Energy	1,000.37	-0.07%	27.79%
Basic Materials	1,194.61	-0.37%	-3.10%
Infrastructures	986.63	-0.45%	14.41%
Financials	1,537.89	-0.72%	22.01%
Industrials	1,080.97	-0.78%	16.37%
JCI	6,591.35	-0.79%	10.24%
Property & Real Estate	865.93	-1.26%	-9.39%
Transportation	1,210.05	-1.44%	26.94%
Consumer Non-Cyclicals	690.00	-3.79%	-12.77%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.50	5 bps	38 bps
UST 10Y Yield	1.56	-7 bps	65 bps
Ind GB 10Y Yield	6.04	-2 bps	16 bps
USDIDR	14,168	45	118
CDS Indo 5Y	82.17	-0.46	14.66

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+743.55Bn	+40.76Tn
Government Bond Market (Rp)	-7.24Tn	-23.2Tn

Commodities	Last	1W	YTD
WTI	83.57	-0.23%	72.24%
Brent	84.38	-1.34%	62.90%
CPO (Malaysia)	5,039.00	2.34%	76.25%
Coal (New Castle)	223.70	-2.74%	177.89%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,019.77	-1.97%	4.63%
XIIT	IDX30	539.31	-1.91%	4.03%
XIJI	JII	567.93	-6.30%	-11.24%
XISI	SMInfra18	340.49	-1.65%	2.56%
XISR	SriKehati	389.27	-2.06%	2.63%
XIHD	IDXHIDIV20	495.17	-2.13%	7.79%
XIPI	Pefindo I-Grade	181.93	-2.05%	5.48%
XIIM	MSCI Indo Large Cap	262.43	-2.17%	3.38%
XIID	IDX30	521.20	-1.94%	3.50%
XIFE	FTSE ESG Indonesia	104.75	-1.81%	-
XIIC	Consumer Related	990.72	-1.50%	-4.22%
XIIF	Rate Sensitive	558.14	-2.61%	-5.18%
XISC	BUMN Stocks	728.57	-2.39%	-4.56%
XISB	Sovereign Bonds	449.52	0.21%	0.76%

Conventional	Last	1W	YTD	
RDMP	Equity	912.40	-1.03%	-13.69%
RPCF	Balanced	2,714.74	-0.75%	-9.07%
RDP2	Money Market	1,328.79	0.07%	3.44%

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. Cyclicals	Commodities	Cash	2021F	2021F	
1 RLQ45	25.3	50.0	12.8	9.4	2.51	18.0	3.7	1.17
2 XIIT	28.0	52.3	7.4	9.7	2.59	18.1	3.9	1.16
3 XISC	18.8	43.7	17.0	16.4	4.14	17.8	2.9	1.36
4 XISR	25.1	66.5	3.3	4.9	0.22	18.7	4.3	1.13
5 XIIF	12.2	53.4	32.3	0.0	2.08	22.2	3.8	1.27
6 XISI	47.0	16.7	19.1	12.0	5.18	17.5	3.0	1.21
7 XIPI	20.4	62.0	13.6	3.8	0.29	21.2	3.8	1.18
8 XIIC	32.3	41.9	20.2	3.7	1.95	22.0	3.6	1.03
9 XIHD	27.6	55.9	3.8	11.9	0.70	17.6	4.3	1.14
10 XIJI	46.0	3.5	30.5	19.7	0.36	18.1	2.2	1.07
11 XIIML	18.1	75.4	3.4	3.0	0.15	18.8	4.5	1.15
12 XIID	28.0	52.3	7.4	9.8	2.45	18.1	3.9	1.16
13 XIFE	30.6	57.4	5.3	6.4	0.24	17.4	4.0	1.09
Index								
IDX80	32.2	36.5	19.1	12.2		17.0	2.6	
JCI	29.8	42.3	18.1	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

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