

**Fed's accelerated taper could potentially move forward rate hike timeline**

Global stock markets fell for the second week in a row amid elevated volatility driven by fears over the Omicron variant and tightening of US monetary policy. Fed Chair Jerome Powell in his testimony before Congress acknowledged that the US central bank was growing more concerned about the persistent inflation and may consider accelerating the pace of its tapering program. He also cited rising Covid cases and emergence of Omicron variant as potentially prolonging supply chain disruptions and economic recovery. This statement is interpreted by markets as a sign that the Fed may be moving forward its rate hike timeline. In turn, this led to a flattening of the Treasury yield curve as 2-yr yields rose by 9bps while 10-yr yields fell by 13bps on fears of a delayed economic recovery. In addition, job creation in November was weaker than expected with nonfarm payrolls increase of 210,000 jobs vs. 546,000 in October and consensus forecast of 550,000, although the unemployment rate improved to 4.2% (October: 4.6%) due to upward revisions of data in the prior two months. Elsewhere in Europe, average inflation for EU countries also climbed to its highest level of 4.9% YoY in November, up from 4.1% in October, although an ECB official asserted that inflation is not spiralling out of control. Globally, DM equities performed worse than EM stocks this week (-1.45% vs. +0.12%), which benefited from EM market recoveries in Latin America and EMEA regions.

In Indonesia, JCI fell slightly by 0.35% on the back of foreign selling (Rp2.75Tn) while the bond market suffered larger outflows (Rp10.8Tn), which pushed 10-yr IDR yields up by 17bps to 6.25%. The stock market correction came from both large caps and mid & small cap stocks, particularly in technology and consumer sectors while stocks in energy and transportation sectors performed well.

**The Week Ahead – US Jobless Claims, Inflation and Consumer Sentiment**

The key economic data releases to focus next week are China Trade Balance (Tue 10:00), EU President Lagarde Speech (Wed 15:15), US Initial Jobless Claims (Thu 20:30), US Inflation Rate (Fri 20:30), US Michigan Consumer Sentiment and Expectations (Fri 22:00)

**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'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	34,580.08	-0.91%	12.98%
S&P 500	4,538.43	-1.22%	20.83%
Nasdaq	15,085.47	-2.62%	17.05%
FTSE 100	7,122.32	1.11%	10.24%
DAX	15,169.98	-0.57%	10.58%
Nikkei 225	28,029.57	-2.51%	2.13%
Hang Seng	23,766.69	-1.30%	-12.72%
Shanghai	3,607.43	1.22%	3.87%
MSCI World	3,086.44	-1.45%	14.74%
MSCI Emerging Markets	1,224.64	0.12%	-5.16%

JCI Sector Indices	Last	1W	YTD
Transportation	1,483.42	3.92%	55.62%
Energy	1,074.32	3.91%	37.24%
Healthcare	1,448.85	0.95%	10.57%
Industrials	1,053.46	0.61%	13.41%
Infrastructures	982.37	-0.08%	13.91%
Financials	1,520.16	-0.15%	20.60%
<b>JCI</b>	<b>6,538.51</b>	<b>-0.35%</b>	<b>9.36%</b>
Basic Materials	1,203.23	-0.97%	-2.40%
Consumer Cyclical	839.67	-1.29%	13.03%
Property & Real Estate	805.14	-1.35%	-15.75%
Consumer Non-Cyclicals	668.67	-2.78%	-15.47%
Technology	8,670.40	-3.91%	678.47%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.59	9 bps	47 bps
UST 10Y Yield	1.36	-13 bps	44 bps
Ind GB 10Y Yield	6.25	17 bps	36 bps
USDIDR	14,420	62	370
CDS Indo 5Y	78.03	0.00	10.52

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.75Tn	+39.63Tn
Government Bond Market (Rp)	-10.8Tn	-59.47Tn

Commodities	Last	1W	YTD
WTI	66.26	-2.77%	36.56%
Brent	69.88	-3.91%	34.90%
CPO (Malaysia)	4,650.00	-4.26%	62.64%
Coal (New Castle)	156.00	-1.27%	93.79%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,000.47	0.09%	2.65%
XIIT	IDX30	531.84	0.17%	2.59%
XIJI	JII	595.39	-0.09%	-6.94%
XISI	SMInfra18	335.52	0.44%	1.07%
XISR	SriKehati	385.31	-0.23%	1.59%
XIHD	IDXHIDIV20	495.18	0.92%	7.79%
XIPI	Pefindo I-Grade	180.36	-0.13%	4.57%
XIML	MSCI Indo Large Cap	259.23	0.14%	2.12%
XIID	IDX30	519.27	0.15%	3.11%
XIFE	FTSE ESG Indonesia	103.33	0.10%	-
XIIC	Consumer Related	976.36	-0.06%	-5.61%
XIIF	Rate Sensitive	538.48	-1.25%	-8.52%
XISC	BUMN Stocks	698.09	-1.76%	-8.55%
XISB	Sovereign Bonds	448.48	-0.67%	0.52%

Conventional	Last	1W	YTD
RDMP Equity	938.17	1.75%	-11.26%
RPCF Balanced	2,785.17	1.10%	-6.71%
RDP2 Money Market	1,333.39	0.07%	3.80%

## 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 <b>RLQ45</b>	26.9	49.7	12.7	10.1	0.56	18.2	3.6	1.17
2 XIIT	29.7	52.0	7.2	10.6	0.57	18.5	3.8	1.16
3 <b>XISC</b>	19.5	43.7	15.7	17.1	4.02	17.4	2.9	1.36
4 XISR	28.1	60.3	6.5	4.8	0.38	18.6	4.2	1.13
5 <b>XIIF</b>	13.1	53.3	31.3	0.0	2.36	21.6	3.8	1.27
6 XISI	53.9	16.6	17.6	11.6	0.34	17.3	3.0	1.21
7 <b>XIPI</b>	21.6	61.3	12.6	4.2	0.22	21.2	3.8	1.18
8 XIIC	32.4	41.1	19.4	4.3	2.73	21.5	3.6	1.03
9 <b>XIHD</b>	29.4	53.3	3.8	12.8	0.72	17.4	4.3	1.14
10 XIJI	48.4	1.0	30.2	19.8	0.59	18.6	2.1	1.07
11 <b>XIML</b>	19.6	76.6	3.4	0.0	0.33	19.8	4.5	1.15
12 XIID	29.8	52.2	7.2	10.6	0.24	18.5	3.8	1.16
13 <b>XIFE</b>	31.1	57.1	4.9	6.4	0.38	17.3	4.0	1.09
<b>Index</b>								
<b>IDX80</b>	32.3	39.1	17.4	11.1		16.7	2.8	
<b>JCI</b>	29.9	41.3	18.5	10.3		18.8	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	<a href="mailto:noviono@ipc.co.id">noviono@ipc.co.id</a>	Ext.	2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	<a href="mailto:m.fairuz@ipc.co.id">m.fairuz@ipc.co.id</a>	Ext.	2311	0818-0262-7732
Frida Dwi Tyas	Relationship Manager & Distribution Channel	<a href="mailto:frida.tyas@ipc.co.id">frida.tyas@ipc.co.id</a>	Ext.	2314	0818-0912-6747
Indra Pratama	Relationship Manager	<a href="mailto:indra.p@ipc.co.id">indra.p@ipc.co.id</a>	Ext.	2315	0857-9494-5058

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