

Easing Omicron fears, record low US jobless claims, surging inflation

Global stock markets rebounded strongly as fears over the new Omicron Covid variant seemed to be easing. Statements from President Biden's chief medical advisor Dr. Fauci and US CDC Head Dr. Walensky that Omicron cases appeared to be mild, although they also cautioned it is too early to be certain, seemed to have restored investors' confidence in equity markets. On the other hand, the news correspondingly led to bond market corrections as the 10-yr US Treasury yields climbed back to 1.48%, although they are still below pre-Omicron high of 1.67% in November. This week's economic data supported stocks' recovery as US initial jobless claims fell to 184K, ahead of expectations of 215K, which was a level not seen since 1969. The University of Michigan's consumer sentiment index also improved to 70.4 in December, from 10-year low of 67.4 in previous month, also beating market forecasts (67.1). Meanwhile, US inflation data that showed record high inflation of 0.8% MoM (6.8% YoY) in November, with an also high core inflation (0.5% MoM; 4.9% YoY), did not appear to affect bond market, which is already looking ahead to Fed's accelerated taper in upcoming FOMC meeting on 14-15 December. If the Fed decides to up the pace of its tapering to \$30bn per month (currently \$15bn), this would allow it to end the tapering process by Q1 2022, giving it flexibility to start rate-hike cycle earlier. The FOMC meeting will also reveal new economic projections and a "dot plot", which will indicate the speed of Fed's rate hikes in the next few years.

In Indonesia, JCI gained 1.75% despite of sustained foreign selling (Rp1.27Tn), which were much more intensive in the bond market (net outflow of Rp8.05Tn). Driving the market higher were small and mid cap stocks in consumer cyclicals, transportation and technology sectors. Among the large cap stocks, automotive, energy, consumer staples, telecommunication and materials sectors performed the best while banking sector was the main laggard this week.

The Week Ahead – FOMC Meeting, Indonesia Trade Balance, BI Meeting

The key economic data to focus next week includes US PPI Index (Tue 20:30), Indonesia Trade Balance (Wed 11:00), US Retail Sales (Wed 20:30), Fed Meeting Outcome and FOMC Economic Projections (Thu 02:00), BI Interest Rate Decision (Thu 14:30), EU Markit PMI (Thu 16:00), ECB Interest Rate Decision (Thu 19:45), US Jobless Claims (Thu 20:30), and US Markit PMI (Thu 21:45).

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'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	35,970.99	4.02%	17.53%
S&P 500	4,712.02	3.82%	25.45%
Nasdaq	15,630.60	3.61%	21.28%
FTSE 100	7,291.78	2.38%	12.87%
DAX	15,623.31	2.99%	13.88%
Nikkei 225	28,437.77	1.46%	3.62%
Hang Seng	23,995.72	0.96%	-11.88%
Shanghai	3,666.35	1.63%	5.57%
MSCI World	3,188.26	3.30%	18.52%
MSCI Emerging Markets	1,238.54	1.14%	-4.08%

JCI Sector Indices	Last	1W	YTD
Consumer Cyclicals	884.17	5.30%	19.02%
Transportation	1,560.28	5.18%	63.69%
Technology	8,983.63	3.61%	706.59%
Financials	1,559.76	2.60%	23.74%
Energy	1,096.80	2.09%	40.11%
Consumer Non-Cyclicals	681.15	1.87%	-13.89%
Industrials	1,073.09	1.86%	15.52%
JCI	6,652.92	1.75%	11.27%
Infrastructures	987.95	0.57%	14.56%
Property & Real Estate	808.78	0.45%	-15.37%
Basic Materials	1,203.74	0.04%	-2.36%
Healthcare	1,442.62	-0.43%	10.09%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.65	7 bps	53 bps
UST 10Y Yield	1.48	14 bps	57 bps
Ind GB 10Y Yield	6.31	6 bps	43 bps
USDIDR	14,371	-28	321
CDS Indo 5Y	79.25	1.22	11.74

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.27Tn	+38.36Tn
Government Bond Market (Rp)	-8.05Tn	-72.46Tn

Commodities	Last	1W	YTD
WTI	71.67	8.16%	47.71%
Brent	75.15	7.54%	45.08%
CPO (Malaysia)	4,783.00	2.86%	67.30%
Coal (New Castle)	163.00	4.49%	102.48%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,009.94	0.95%	3.62%
XIIT	IDX30	536.98	0.97%	3.58%
XIJI	JII	606.92	1.94%	-5.14%
XISI	SMInfra18	341.49	1.78%	2.86%
XISR	SriKehati	389.43	1.07%	2.67%
XIHD	IDXHIDIV20	499.65	0.90%	8.76%
XIPI	Pefindo I-Grade	181.22	0.48%	5.07%
XIML	MSCI Indo Large Cap	260.72	0.58%	2.71%
XIID	IDX30	524.20	0.95%	4.09%
XIFE	FTSE ESG Indonesia	104.36	1.00%	-
XIIC	Consumer Related	989.67	1.36%	-4.32%
XIIF	Rate Sensitive	544.96	1.20%	-7.41%
XISC	BUMN Stocks	704.15	0.87%	-7.76%
XISB	Sovereign Bonds	450.68	0.49%	1.02%

Conventional				
RDMP	Equity	976.59	4.10%	-7.62%
RPCF	Balanced	2,881.62	3.46%	-3.48%
RDPU 2	Money Market	1,334.44	0.08%	3.88%

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	27.3	49.6	12.8	10.1	0.20	17.9	3.6	1.17
2 XIIT	30.1	51.8	7.2	10.7	0.22	18.1	3.8	1.16
3 XISC	19.5	43.7	15.9	16.9	3.98	17.3	2.8	1.36
4 XISR	28.3	59.9	6.6	4.8	0.35	18.4	4.2	1.13
5 XIIF	13.1	53.2	31.4	0.0	2.26	21.3	3.8	1.27
6 XISI	52.8	16.3	17.9	11.5	1.45	17.1	3.0	1.21
7 XIPI	21.6	61.0	12.7	4.2	0.48	21.0	3.8	1.18
8 XIIC	32.9	40.9	19.3	4.3	2.63	21.3	3.6	1.03
9 XIHD	29.6	53.1	4.0	12.7	0.69	17.1	4.3	1.14
10 XIJI	48.8	1.0	30.0	19.7	0.55	18.2	2.1	1.07
11 XIIML	20.0	76.4	3.4	0.0	0.24	19.5	4.5	1.15
12 XIID	30.1	51.9	7.1	10.6	0.20	18.1	3.8	1.16
13 XIFE	31.4	56.6	5.2	6.5	0.28	17.0	4.0	1.09
Index								
IDX80	32.2	39.1	18.0	10.7		16.9	2.8	
JCI	30.2	41.8	17.9	10.2		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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