

US Q1 GDP grew 6.4% as consumer confidence hit pandemic-era highest

Global markets ended lower amid strong US economic and earnings growth, Fed's continuing dovish tone, and receding infections, although Covid situation elsewhere, particularly in India, remains a concern. The S&P500 index hit a new high on Thursday amid strong GDP growth and lower jobless claims although it fell back on Friday due to investors' profit takings. The US economy grew by an annualised 6.4% QoQ in Q1 2021 (vs. 4.3% in the previous quarter), ahead of consensus forecast (6.1%), while personal income and spending grew by 21.1% and 4.2% MoM, respectively, in March, also better than expected on the back of rising consumer confidence. Meanwhile, 87% of Q1 earnings beat expectations and the estimated earnings growth rate for S&P500 is 46.3% in Q1, according Refinitiv. However, inflation rate is also rising with PCE Price Index up by 2.3% YoY (+0.5% MoM) in March although the Fed's promise not to raise rate or to lower its asset purchases helped mitigated the rise in 10-yr UST yield to 1.73%. Elsewhere, EU GDP shrank by 0.6% QoQ (-1.8% YoY) in Q1, a continuing dip from the previous quarter due to renewed Covid lockdowns while China's PMIs showed lower than expected manufacturing and services expansions in April.

In Indonesia, JCI closed 0.35% lower amid smaller foreign outflows of Rp363Bn while the bond market sustained inflows (Rp1.2Tn) for the second week. Gains in mining, property, and construction stocks were not enough to offset losses from key stocks in auto, banking, trade and consumer sectors.

The Week Ahead – Indonesia GDP Growth, US Non Farm Payrolls

The key economic calendar to watch out for next week includes Indonesia Manufacturing PMI and Inflation (Mon 07:30/11:00), US ISM Manufacturing PMI (Mon 21:00), Fed Chair Powell Speech (Tue 01:20), Indonesia GDP Growth Rate (Wed 11:00), US ADP Employment Change (Wed 19:15), EU Retail Sales (Thu 16:00), US Jobless Claims (Thu 19:30), China Caixin Services PMI (Fri 08:45), and 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 in recent weeks has shifted to rising inflation, as reflected in rapidly rising bond yields and commodity prices, which could lower profit margins and stock valuation, particularly in the Developed Markets. However, we view rising commodity prices is a bullish case for Emerging Markets as EM GDP, earnings growth and equities returns are historically positively correlated to commodity prices. Indonesia's commodity sectors are expected to add 4.2% to JCI earnings growth in 2021, after contributing negatively to equity earnings growth in each of the past 2 years. We maintain our long-held 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending Q1 2021 corporate earnings releases.

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. Meanwhile, XIPI has managed to closely track JCI performances so far in 2021, well outperforming other broad-based ETFs due to its overweight of cyclicals, including in banking & basic materials sectors, and its underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from economic recovery while still maintaining defensiveness through overweight exposure in BBCA. Meanwhile, Environmental, Social & Governance (ESG) ETFs globally saw record inflows in 2020 amid 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.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBCA and consumer stocks, and thus may be viewed as riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 15.5x and 14.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.8x), XIIT (at 16.3x), XIIML (at 16.3x) and XIPI (at 18.5x), and thus may have more upside potential if investors continue to rotate away from defensive sectors into cyclical stocks. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	33,874.85	-0.50%	10.68%
S&P 500	4,181.17	0.02%	11.32%
Nasdaq	13,962.68	-0.39%	8.34%
FTSE 100	6,969.81	0.45%	7.88%
DAX	15,135.91	-0.94%	10.33%
Nikkei 225	28,812.63	-0.72%	4.99%
Hang Seng	28,724.88	-1.22%	5.49%
Shanghai	3,446.86	-0.79%	-0.75%
EIDO	21.64	-1.37%	-7.60%

JCI Sector Indices	Last	1W	YTD
JAKMINE	1,939.76	8.76%	1.26%
JAKPROP	351.54	1.75%	-11.43%
JAKAGRI	1,577.24	0.03%	5.29%
JAKINFR	1,036.52	-0.31%	3.55%
JAKBIND	938.44	-0.31%	1.90%
JCI	5,995.62	-0.35%	0.28%
JAKCONS	1,621.78	-0.84%	-11.48%
JAKTRAD	872.24	-0.99%	13.81%
JAKFIN	1,361.22	-1.57%	2.10%
JAKMIND	1,036.75	-1.82%	-4.10%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0 bps	4 bps
UST 10Y Yield	1.63	7 bps	71 bps
Ind GB 10Y Yield	6.48	4 bps	59 bps
USDIDR	14,453	-72	403
CDS Indo 5Y	77.07	-2.22	9.56

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-363.41Bn	+777.53Bn
Government Bond Market (Rp)	+1.17 Tn	-12.57 Tn

Commodities	Last	1W	YTD
WTI	63.49	2.17%	30.85%
Brent	67.25	1.72%	29.83%
CPO (Malaysia)	3,868.00	-1.50%	18.47%
Coal (New Castle)	91.60	-1.51%	13.79%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	939.59	-0.99%	-3.60%
XIIT	IDX30	494.94	-1.16%	-4.53%
XIJI	JII	593.56	-0.43%	-7.23%
XISI	SMInfra18	316.13	0.44%	-4.78%
XISR	Sri Kehati	354.30	-1.43%	-6.59%
XIHD	IDXHIDIV20	436.70	-1.63%	-4.94%
XIPI	Pefindo I-Grade	168.34	-0.79%	-2.40%
XIIML	MSCI Indo Large Cap	240.47	-2.09%	-5.27%
XIID	IDX30	479.89	-1.17%	-4.71%
XIFE	FTSE Indo ESG	95.09	-1.19%	-
XIIC	Consumer Related	961.51	-1.66%	-7.04%
XIIF	Rate Sensitive	542.03	-0.62%	-7.91%
XISC	BUMN Stocks	703.76	0.34%	-7.81%
XISB	Sovereign Bonds	431.56	-0.01%	-3.27%
<i>Conventional</i>				
RDMP	Equity	942.61	-1.23%	-10.84%
RPCF	Balanced	2,727.32	-0.54%	-8.65%
RDP2U	Money Market	1,303.35	0.08%	1.46%

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	26.7	48.6	15.3	8.7	0.72	16.8	2.7	1.12
2 XIIT	28.7	51.4	10.6	8.5	0.74	16.3	2.9	1.17
3 XISC	19.8	34.8	21.0	17.1	7.31	14.6	3.3	1.27
4 XISR	25.3	64.0	5.2	4.5	1.01	16.7	2.8	1.15
5 XIIF	11.4	49.1	38.8	0.0	0.81	16.5	2.7	1.23
6 XISI	42.6	14.9	21.9	13.5	7.12	15.5	3.2	1.13
7 XIPI	17.6	59.1	16.3	5.9	1.03	18.5	2.3	1.19
8 XIIC	33.5	41.6	21.2	0.0	3.69	16.9	3.1	1.10
9 XIHD	30.9	52.1	4.9	10.8	1.33	16.5	3.2	1.15
10 XIJI	48.2	1.4	33.3	16.8	0.28	18.7	2.2	1.09
11 XIIML	21.0	70.3	4.5	3.1	1.16	16.3	3.0	1.16
12 XIID	28.7	51.4	10.7	8.5	0.73	16.4	2.9	1.10
13 XIFE	31.4	55.1	6.4	6.0	1.17	16.5	2.9	1.16
Index								
IDX80	30.7	40.4	18.2	10.7		15.7	2.6	
JCI	30.6	38.6	21.7	9.2		16.1	1.8	

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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