

Asian stocks underperformed DM equities amid China tech crackdown

Developed Markets equities were down slightly amid the spread of Covid delta variant and concerns over slowing recovery while Asian markets corrected more significantly this week amid China's regulatory crackdown of the tech sector. As such, the gap between DM and EM stock market returns since the start of 2021 has widened. In US, the CDC's revised guidance for vaccinated individuals to wear masks again indoor in high-transmission areas has dampened sentiment, as also lower-than-expected economic data releases. US GDP growth of 6.5% annualized in Q2 (vs. Q1) came significantly below consensus forecast of 8.5%. Also missing expectations were June durable goods order growth of 0.8% MoM (vs. 2.1% cons), new and pending home sales, and weekly initial jobless claims (400K vs. 380K cons.). Meanwhile, US personal income and spending growth in June were better than expected. On the other hand, US has a stellar earnings season in Q2 as 88.5% of the 296 companies that have reported earnings to date beat expectations and aggregate earnings is expected to grow 90% YoY in Q2. In the bond market, 10-yr UST yield edged lower to 1.23% (-5 bps) as US core PCE price index rose 0.4% MoM in June (vs. 0.6% cons.), indicating an easing of inflationary pressures, while FOMC meeting on July 27-28 maintained policy stance.

In Indonesia, JCI corrected (-0.52%) on the back of Rp621Bn foreign outflows. Most of the large cap stocks declined, particularly those in banking, consumer, healthcare, industrials, basic materials, and property sectors while infrastructure, energy and metals mining stocks were the few gainers in the market.

The Week Ahead – Indonesia GDP Growth Rate, US Jobs Reports

The key economic calendar to watch out for next week include Indonesia Markit Manufacturing PMI (Mon 07:30), China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ADP (Private Sector) Job Growth (Wed 19:15), Indonesia GDP Growth Rate (Thu 11:00), US Jobless Claims (Thu 19:30), 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 (unlike in 2013), Indonesia country risk indicators have improved, and its bond market is now more resilient. We reiterate our 2021 JCI target of 6,600

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 has managed to closely follow JCI performances in 2021 and outperformed other broad-based ETFs due to its overweight of cyclicals, including in banking & basic materials sectors, and 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 XIML (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 14.2x and 13.8x respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 15.8x), XIIT (at 15.5x), XIML (at 14.9x) and XIPI (at 17.8x), and may have more upside potential if investors once again are rotating away from defensive sectors into cyclical stocks, although we believe this is unlikely given renewed lockdowns in Indonesia. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,935.47	-0.36%	14.14%
S&P 500	4,395.26	-0.37%	17.02%
Nasdaq	14,672.68	-1.11%	13.85%
FTSE 100	7,032.30	0.07%	8.85%
DAX	15,544.39	-0.80%	13.31%
Nikkei 225	27,283.59	-0.96%	-0.59%
Hang Seng	25,961.03	-4.98%	-4.66%
Shanghai	3,397.36	-4.31%	-2.18%
EIDO	20.09	-0.59%	-14.22%

JCI Sector Indices	Last	1W	YTD
Technology	11,732.89	3.75%	953.43%
Infrastructures	931.57	3.49%	8.02%
Transportation	1,043.90	2.80%	9.51%
Consumer Cyclical	801.20	2.02%	7.85%
Basic Materials	1,163.65	1.02%	-5.62%
Energy	760.08	0.38%	-2.91%
Property & Real Estate	803.93	-0.45%	-15.88%
JCI	6,070.04	-0.52%	1.52%
Financials	1,353.82	-0.97%	7.41%
Industrials	926.25	-2.88%	-0.29%
Healthcare	1,358.12	-2.98%	3.65%
Consumer Non-Cyclicals	660.00	-4.57%	-16.57%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.19	-1 bps	7 bps
UST 10Y Yield	1.23	-5 bps	31 bps
Ind GB 10Y Yield	6.29	-26 bps	41 bps
USDIDR	14,463	-30	413
CDS Indo 5Y	80.01	1.71	12.50

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-621.2Bn	+6.03Tn
Government Bond Market(Rp)	-25.07Bn	-8.35Tn

Commodities	Last	1W	YTD
WTI	73.72	2.29%	51.94%
Brent	75.14	1.40%	45.06%
CPO (Malaysia)	4,366.00	2.22%	50.03%
Coal (New Castle)	152.75	2.00%	89.75%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	875.45	-2.67%	-10.18%
XIIT	IDX30	462.55	-2.76%	-10.78%
XIJI	JII	554.11	-1.88%	-13.40%
XISI	SMInfra18	305.50	-1.33%	-7.98%
XISR	SriKehati	322.47	-3.23%	-14.98%
XIHD	IDXHIDIV20	418.20	-1.90%	-8.97%
XIPI	Pefindo I-Grade	157.00	-1.34%	-8.97%
XIML	MSCI Indo Large Cap	218.34	-2.70%	-13.99%
XIID	IDX30	448.14	-2.75%	-11.01%
XIFE	FTSE ESG Indonesia	88.70	-2.47%	-
XIIC	Consumer Related	873.17	-3.30%	-15.58%
XIIF	Rate Sensitive	462.89	-4.50%	-21.36%
XISC	BUMN Stocks	630.15	-3.65%	-17.45%
XISB	Sovereign Bonds	443.72	0.63%	-0.54%

Conventional	Last	1W	YTD	
RDMP	Equity	861.09	-3.22%	-18.55%
RPCF	Balanced	2,588.06	-1.99%	-13.31%
RDP2	Money Market	1,316.37	0.08%	2.48%

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	28.1	47.7	12.8	10.1	1.36	15.8	2.9	1.12
2 XIIT	30.2	50.2	7.0	9.7	2.85	15.5	3.2	1.17
3 XISC	17.2	38.4	14.4	17.5	12.49	13.8	3.6	1.27
4 XISR	25.7	65.4	3.1	5.6	0.22	15.0	3.1	1.15
5 XIIF	12.8	53.3	33.4	0.0	0.51	15.5	2.9	1.23
6 XISI	53.0	14.2	17.3	15.0	0.48	14.2	3.5	1.13
7 XIPI	19.3	59.6	16.2	4.1	0.88	17.8	2.4	1.19
8 XIIC	38.9	36.0	20.6	3.6	0.91	16.4	2.9	1.10
9 XIHD	33.1	50.4	4.0	11.9	0.53	14.9	3.5	1.15
10 XIJI	48.5	1.1	30.6	19.2	0.61	18.4	2.4	1.09
11 XIIML	19.8	72.5	4.2	3.0	0.37	14.9	3.3	1.16
12 XIID	30.2	50.2	7.1	9.7	2.86	15.6	3.2	1.10
13 XIFE	33.1	54.6	5.1	6.7	0.50	15.2	3.2	1.16
Index								
IDX80	32.2	39.1	16.7	12.0		14.4	2.8	
JCI	30.9	39.4	20.0	9.7		18.1	1.9	

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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