

Directionless markets as virus resurgence may show up in economic data

Global stock markets were moving up and down during the week but closed mostly higher on Friday as Gilead Sciences announced a new study showing its Covid-19 treatment drug *Remdesivir* significantly reduces mortality rates while BioNTech's CEO stated its vaccine candidate could be ready for approval by December. However, the gains in US stock markets were mostly accounted for by technology stocks, which are resilient to economic lockdowns, as investors worry virus resurgence will start showing up in economic data despite positive surprise from US Non-Manufacturing PMI data of 57.1 for June (consensus: 50.1), which is viewed as largely reflecting conditions before virus resurgence. Meanwhile, European markets also received a boost from industrial production data from Italy and France, which rebounded more strongly than expected in May, after markets initially closed lower on renewed virus fears. Virus worries also send bond yields to their lowest levels since April.

JCI gained modestly as the pace of foreign selling in equity and bond markets slowed (outflows of Rp241Bn and Rp420Bn, respectively) led by banking sector as the government opens possibility of placing its funds also with private banks, not only in state-owned banks, to help with liquidity in the sector.

The Week Ahead – China GDP, Indonesia Trade Balance, BI Rate Decision

The key economic calendar to watch out for next week are China Trade Balance (Tue 10:00), EU Industrial Production (Tue 16:00), US Inflation Rate (Tue 19:30), Indonesia Trade Balance and Business Confidence (Wed 11:00), US Industrial Production (Wed 20:15), China GDP Growth Rate, Industrial Production & Retail Sales (Thu 09:00), Indonesia Interest Rate Decision (Thu 14:30), ECB Interest Rate Decision (Thu 18:45), US Retail Sales & Initial Jobless Claims (Thu 19:30).

Investment Conclusion

Equity markets globally have recovered strongly, pricing in V-shaped recoveries in economic growth and equity earnings in 2021, as the worst of the economic fallout from the pandemic seems largely over despite fears over a second wave of infections. Although Indonesia's coronavirus outbreak is still in early stage, we believe the risk is already priced in as JCI trailing P/E valuation has fallen to around its 20-yr average, while global markets valuation have returned to near pre-pandemic highs at 1SD above their long-term averages. We view Indonesia market valuation is still attractive, regardless of GDP and earnings growth in 2020, as the government plans to reopen economy, despite high uncertainty on the banking sector arising from the extent of NPLs that need to be restructured (at 23% of banking system loans). We believe JCI will continue to recover and narrow its valuation gap to global markets (our target is 5,300) with catalysts from vaccine discovery, signs of coronavirus infections slowing, and resumption of economic activities in Indonesia.

Recommendation

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our satellite ETFs XISR (Sri Kehati) and XIPI (Pefindo I-Grade), both of which have overweight positions in BBCA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a potential market rebound, our pick is our ETF XIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among the most impacted by foreign selling and thus may benefit from a recovery. XIML shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBCA.

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 more risky at current market conditions. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 16.1x and 15.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.5x), XIIT (at 18.4x), and XIML (at 19.1x), and thus may have more upside potential if Indonesia's stock market recovers on a sustainable basis. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	26,075.30	0.96%	-8.63%
S&P 500	3,185.04	1.76%	-1.42%
Nasdaq	10,617.44	4.01%	18.33%
FTSE 100	6,095.41	-1.01%	-19.19%
DAX	12,633.71	0.84%	-4.64%
Nikkei 225	22,290.81	-0.07%	-5.77%
Hang Seng	25,727.41	1.40%	-8.73%
Shanghai	3,383.32	7.31%	10.92%
EIDO	19.01	2.76%	-25.92%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,112.21	3.62%	-17.90%
JAKAGRI	1,053.81	1.80%	-30.87%
JAKBIND	760.58	1.35%	-22.24%
JAKMINE	1,284.56	1.27%	-17.05%
JCI	5,031.26	1.16%	-20.13%
JAKMIND	872.40	-0.29%	-28.72%
JAKTRAD	603.26	-0.39%	-21.64%
JAKINFR	893.85	-0.42%	-21.42%
JAKCONS	1,799.02	-0.91%	-12.36%
JAKPROP	316.06	-1.59%	-37.28%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0.4 bps	-141 bps
UST 10Y Yield	0.64	-3 bps	-127 bps
Ind GB 10Y Yield	7.09	-13 bps	3 bps
USDIDR	14,435	-88	569
CDS Indo 5Y	125.72	-54.45	63.48

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-241.82Bn	-33.04Tn
Government Bond Market (Rp)	-420Bn	-127.62Tn

Commodities	Last	1W	YTD
WTI	40.55	0.67%	-33.59%
Brent	43.24	1.08%	-34.48%
CPO (Malaysia)	2,409.00	2.16%	-19.32%
Coal (New Castle)	54.00	2.96%	-20.24%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	833.26	1.74%	-20.39%
XIIT	IDX30	449.89	1.80%	-20.48%
XIJI	JII	552.67	0.10%	-21.62%
XISI	SMInfra18	262.58	0.44%	-23.26%
XISR	Sri Kehati	325.94	2.15%	-19.92%
XIHD	IDXHIDIV20	393.61	1.08%	-21.90%
XIPI	Pefindo I-Grade	140.43	2.28%	-21.73%
XIML	MSCI Indo Large Cap	224.62	2.19%	-
XIID	IDX30	430.79	1.73%	-
XIIC	Consumer Related	908.53	0.58%	-19.84%
XIIF	Rate Sensitive	457.69	1.48%	-27.81%
XISC	BUMN Stocks	531.06	1.50%	-26.44%
XISB	Sovereign Bonds	412.93	0.98%	0.31%
<i>Conventional</i>				
RDMP	Equity	897.51	0.54%	-23.00%
RPCF	Balanced	2,517.84	1.31%	-15.50%
RDPU2	Money Market	1,252.94	0.07%	2.45%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)		Dividend Yield	
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2020F	2019		
1 RLQ45	30.5	47.4	15.6	5.4	1.2	18.5	3.4		
2 XIIT	28.0	50.8	14.2	5.9	1.1	18.4	3.5		
3 XISC	21.5	34.7	26.1	12.7	5.1	15.6	4.7		
4 XISR	29.5	61.9	4.1	3.8	0.7	19.2	3.2		
5 XIIF	16.2	51.5	29.9	0.0	2.5	19.6	3.1		
6 XISI	49.4	14.5	23.0	12.2	0.8	16.1	4.3		
7 XIPI	21.9	60.1	16.0	1.2	0.8	21.5	2.7		
8 XIIC	47.3	37.1	10.3	0.0	5.3	19.2	3.3		
9 XIHD	36.1	46.7	6.7	9.2	1.3	17.6	3.9		
10 XIJI	53.7	12.2	22.7	10.1	1.2	18.3	3.5		
11 XIML	25.7	66.5	4.2	2.8	0.9	19.1	3.5		
12 XIID	28.3	50.3	14.5	5.8	1.1	18.4	3.5		
Index									
IDX80	31.9	38.8	21.1	8.2	0.0	16.7	2.7		
JCI	32.7	37.6	22.5	7.1	0.0	17.2	2.4		

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. 021-57931260

Fund Sales Team

Noviono Darmosusilo	Director	noviono.d@ipc.co.id	ext	170	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	ext	560	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	ext	620	0812-1071-0788
Sheila Paramitha	Relationship Manager	sheila.paramitha@ipc.co.id	ext	623	0812-9091-0328
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	ext	625	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	ext	136	0857-9494-5058

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