

Fed is cautious on pace of recovery and will not raise rate through 2022

Global stock markets had worst corrections since March as Dow dropped 1,800 points last Thursday following the Fed's cautious economic outlook and fears of a second wave of infections as economies reopen. The Fed sees US economy to contract by 6.5% in 2020 (2021: +5% growth), with unemployment rate of 9.3% (2021: 6.5%), and it will keep buying bonds and not raising rate through 2022. However, Powell stressed the pace of recovery is dependent on the path of the coronavirus and cautioned the economic projections should not be interpreted as official forecasts (given the high uncertainty). The markets' corrections were despite positive news from Regeneron's first clinical trial of its dual antibody cocktail for prevention and treatment of Covid-19 while US weekly jobless claims of 1.54m were in line with expectations. The risk-off market response also sent 10-yr Treasury yields lower after they soared to peak at 0.9% last week.

In Indonesia, JCI also saw modest correction (-1.36%) as foreign flows turned into net sell last week (-Rp2.1Tn), as also seen in bond market (-Rp4.7Tn), after two weeks of net inflows, with the sell-offs particularly affecting telecom stocks. Bond yields and USD/IDR rate were up modestly to 7.24% (+11bps) and 14,133 (+255), respectively, which were only slightly higher than their end-2019 levels.

The Week Ahead – Indonesia Trade, BI Rate Decision, Powell Testimony

The key economic calendar to watch out for next week includes China Industrial Production & Retail Sales (Mon 09:00), Indonesia Trade Balance (Mon 11:00), US Retail Sales (Tue 19:30) & Industrial Production (Tue 20:15), Fed Chair Powell Testimony (Tue 21:30), Japan Trade Balance (Wed 06:50), US Housing Starts (Wed 19:30), BI Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30). Consensus expectation is for BI to maintain policy rate at 4.5%.

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 valuation has fallen to 13.5x P/E, close to its 20-yr mean, 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 on the back of improved testing capability 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 BBKA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a market rebound, our pick is our ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among most impacted by foreign selling and thus should benefit from a recovery. XIIML shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBKA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, and thus lacking defensive constituents such as BBKA and consumer stocks and had been viewed as more risky funds at current market condition. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 14.2x and 13.6x, respectively, much lower than valuation of broad-based ETFs RLQ45 and XIIT at 17.3x and 17.2x, respectively, and XIIML (at 17.5x), and thus should have more upside potential if Indonesia's stock market recovers on sustainable basis. Please refer to our ETF Fund Guide in page 2 of this report.

Global Stock Indices	Last	1W	YTD
DJIA	25,605.54	-5.55%	-10.28%
S&P 500	3,041.31	-4.78%	-5.86%
Nasdaq	9,588.81	-2.30%	6.87%
FTSE 100	6,105.18	-5.85%	-19.06%
DAX	11,949.28	-6.99%	-9.81%
Nikkei 225	22,305.48	-2.44%	-5.71%
Hang Seng	24,301.38	-1.89%	-13.79%
Shanghai	2,919.74	-0.38%	-4.27%
EIDO	18.48	-5.28%	-27.98%

JCI Sector Indices	Last	1W	YTD
JAKAGRI	1,013.86	0.78%	-33.49%
JAKFIN	1,036.30	0.48%	-23.50%
JAKMINE	1,272.15	-0.54%	-17.85%
JAKCONS	1,806.32	-0.57%	-12.00%
JCI	4,880.36	-1.36%	-22.53%
JAKTRAD	603.52	-1.92%	-21.60%
JAKPROP	331.04	-3.41%	-34.30%
JAKMIND	868.14	-3.47%	-29.07%
JAKBIND	727.12	-3.92%	-25.66%
JAKINFR	870.07	-4.05%	-23.51%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.19	-3 bps	-138 bps
UST 10Y Yield	0.71	-20 bps	-121 bps
Ind GB 10Y Yield	7.24	11 bps	18 bps
USDIDR	14,133	255	267
CDS Indo 5Y	134.14	9.16	71.90

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.09 Tn	-27.21Tn
Government Bond Market(Rp)	-4.7 Tn	-125.1Tn

Commodities	Last	1W	YTD
WTI	36.26	-8.32%	-40.62%
Brent	38.73	-8.44%	-41.32%
CPO (Malaysia)	2,366.00	0.77%	-20.76%
Coal (New Castle)	53.00	-4.68%	-21.71%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	792.41	-2.34%	-24.29%
XIIT	IDX30	428.29	-2.17%	-24.30%
XIJI	JII	537.88	-3.05%	-23.71%
XISI	SMInfra18	249.09	-2.73%	-27.20%
XISR	SriKehati	310.28	-1.53%	-23.77%
XIHD	IDXHIDIV20	378.80	-2.35%	-24.84%
XIPI	Pefindo I-Grade	133.05	-2.35%	-25.84%
XIIML	MSCI Indo Large Cap	213.55	-1.93%	-
XIIC	Consumer Related	870.81	-1.70%	-23.17%
XIIF	Rate Sensitive	441.48	-1.57%	-30.37%
XISC	BUMN Stocks	502.87	-0.09%	-30.34%
XISB	Sovereign Bonds	407.55	-0.66%	-1.00%
<i>Conventional</i>				
RDMP	Equity	860.16	-1.78%	-26.21%
RPCF	Balanced	2,418.21	-1.11%	-18.84%
RDPU 2	Money Market	1,249.32	0.07%	2.15%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x) 2020F	Dividend Yield 2019
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash		
1 RLQ45	30.9	47.2	11.7	9.4	0.7	17.3	3.6
2 XIIT	28.7	50.6	10.5	9.6	0.6	17.2	3.6
3 XISC	20.2	34.6	26.7	13.4	5.1	13.6	4.9
4 XISR	30.5	62.7	2.8	2.4	1.7	17.2	3.4
5 XIIF	13.1	52.4	29.7	0.0	4.9	17.5	3.3
6 XISI	44.2	19.4	17.4	13.9	5.2	14.2	4.6
7 XIPI	22.6	60.0	5.7	11.4	0.3	18.8	2.9
8 XIIC	42.7	34.8	10.5	2.5	9.4	17.6	3.5
9 XIHD	36.4	46.1	7.1	9.7	0.7	16.2	4.0
10 XIJI	54.0	12.3	11.4	21.7	0.6	17.4	3.6
11 XI ML	26.7	65.8	4.2	2.7	0.6	17.5	3.7
Index							
IDX80	29.9	39.5	16.6	14.0	0.0	15.1	2.7
JCI	33.6	36.6	22.5	7.2	0.0	15.7	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

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