

**Retail sales jump, fresh stimulus, Covid treatment led to markets rebound**

Global markets rebounded earlier in the week, albeit losing steam towards the end, as the Fed announced on Monday it will begin buying individual corporate bonds to provide liquidity and stability to credit markets, which was followed by Fed Chair Powell testimonies before Congress on Tuesday and Wednesday that urged more fiscal support, and news that the White House may be working on a \$1 trillion infrastructure plan. Signs of US economic rebound is seen from a 17.7% jump in retail sales in May vs. prior month (consensus: +8%), while initial jobless claims of 1.5m was higher than expected, but still showing a declining trend. In Europe, stocks were also bolstered by news that a cheap and widely available steroid drug Dexamethasone can help save the lives of seriously ill coronavirus patients. Meanwhile, oil prices surged 9% during the week as major oil-exporting nations are adhering to agreed production cuts and optimism for improved global demand. These good news outweigh concerns of a potential second wave of virus spread in US, China and elsewhere as economies around the world are reopening.

JCI also rebounded, up by 1.27% for the week, following the day to day trend in global markets, despite sustained foreign outflows (Rp2.31Tn) which were also seen in bond market (Rp1.25Tn) and led to slight currency weakening and bond yield rise. Indonesia reported trade surplus of \$2.1Bn in May, a reversal from \$0.37Bn deficit in April, as imports fell steeper than exports, while BI decided to cut rate by 25bps to 4.25%.

**The Week Ahead – Markit Manufacturing & Services PMI for EU, UK, US**

The key economic calendar to watch out for next week includes US Existing Home Sales (Mon 21:00), Markit Manufacturing & Services PMI data for France, Germany, EU, UK (Tue 14:15-15:30), and also for US (Tue 20:45), US New Home Sales (Tue 21:00), US Initial Jobless Claims & Durable Goods Order (Thu 19:30), and US Personal Income & Spending (Fri 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 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 BBCA, 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 BBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, and thus lacking defensive constituents such as BBCA and consumer stocks and had been viewed as more risky at current market condition. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 14.7x and 14.0x, respectively, which are lower than valuation of broad-based ETFs RLQ45 and XIIT at 17.4x, and XIIML at 17.6x, and thus 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	25,871.46	1.04%	-9.35%
S&P 500	3,097.74	1.86%	-4.12%
Nasdaq	9,946.12	3.73%	10.85%
FTSE 100	6,292.60	3.07%	-16.57%
DAX	12,330.76	3.19%	-6.93%
Nikkei 225	22,478.79	0.78%	-4.98%
Hang Seng	24,643.89	1.41%	-12.58%
Shanghai	2,967.63	1.64%	-2.70%
EIDO	18.54	0.32%	-27.75%

JCI Sector Indices	Last	1W	YTD
JAKINFR	922.41	6.01%	-18.91%
JAKAGRI	1,034.15	2.00%	-32.16%
JAKMIND	885.04	1.95%	-27.68%
<b>JCI</b>	<b>4,942.28</b>	<b>1.27%</b>	<b>-21.55%</b>
JAKCONS	1,827.41	1.17%	-10.97%
JAKPROP	334.77	1.13%	-33.56%
JAKTRAD	606.99	0.58%	-21.15%
JAKFIN	1,041.19	0.47%	-23.14%
JAKBIND	729.20	0.29%	-25.45%
JAKMINE	1,268.10	-0.32%	-18.11%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.19	0 bps	-138 bps
UST 10Y Yield	0.70	-1 bps	-122 bps
Ind GB 10Y Yield	7.19	-4 bps	12 bps
USDIDR	14,100	-33	234
CDS Indo 5Y	124.32	-9.82	62.08

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.31Tn	-29.52Tn
Government Bond Market (Rp)	-1.25Tn	-127.89Tn

Commodities	Last	1W	YTD
WTI	39.43	8.74%	-35.42%
Brent	42.19	8.93%	-36.08%
CPO (Malaysia)	2,367.00	1.24%	-20.73%
Coal (New Castle)	53.10	0.19%	-21.57%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	809.35	2.14%	-22.67%
XIIT	IDX30	437.02	2.04%	-22.76%
XIJI	JII	551.22	2.48%	-21.82%
XISI	SMInfra18	259.43	4.15%	-24.18%
XISR	Sri Kehati	314.81	1.46%	-22.65%
XIHD	IDXHIDIV20	387.41	2.27%	-23.13%
XIPI	Pefindo I-Grade	135.63	1.94%	-24.40%
XIIML	MSCI Indo Large Cap	216.69	1.47%	-
XIIC	Consumer Related	889.93	2.20%	-21.48%
XIIF	Rate Sensitive	450.05	1.94%	-29.02%
XISC	BUMN Stocks	517.24	2.86%	-28.35%
XISB	Sovereign Bonds	407.68	0.03%	-0.96%
<i>Conventional</i>				
RDMP	Equity	884.28	2.80%	-24.14%
RPCF	Balanced	2,460.38	1.74%	-17.43%
RDPUI	Money Market	1,250.23	0.07%	2.23%

**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
<b>1 RLQ45</b>	<b>31.8</b>	<b>46.5</b>	<b>15.5</b>	<b>5.5</b>	<b>0.8</b>	<b>17.4</b>	<b>3.5</b>
2 XIIT	29.6	49.9	13.9	5.9	0.6	17.4	3.6
<b>3 XISC</b>	<b>20.8</b>	<b>33.9</b>	<b>26.5</b>	<b>13.1</b>	<b>5.8</b>	<b>14.0</b>	<b>4.8</b>
4 XISR	31.1	60.3	4.3	3.9	0.4	17.4	3.3
<b>5 XIIF</b>	<b>16.6</b>	<b>49.7</b>	<b>31.5</b>	<b>0.0</b>	<b>2.2</b>	<b>17.6</b>	<b>3.2</b>
6 XISI	49.1	14.2	23.6	12.2	0.9	14.7	4.4
<b>7 XIPI</b>	<b>23.8</b>	<b>59.1</b>	<b>15.4</b>	<b>1.4</b>	<b>0.3</b>	<b>18.9</b>	<b>2.8</b>
8 XIIC	48.4	34.2	10.3	0.0	7.1	17.8	3.4
<b>9 XIHD</b>	<b>37.4</b>	<b>45.3</b>	<b>7.0</b>	<b>9.4</b>	<b>0.9</b>	<b>16.3</b>	<b>4.0</b>
10 XIJI	54.7	12.3	22.6	10.0	0.5	17.8	3.5
<b>11 XIIML</b>	<b>27.6</b>	<b>65.0</b>	<b>4.1</b>	<b>2.9</b>	<b>0.5</b>	<b>17.6</b>	<b>3.6</b>
<b>Index</b>							
<b>IDX80</b>	<b>31.9</b>	<b>38.8</b>	<b>21.1</b>	<b>8.2</b>	<b>0.0</b>	<b>15.4</b>	<b>2.7</b>
JCI	33.5	35.8	23.1	7.4	0.0	15.9	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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