

Virus resurgence, reopening rollbacks overshadowed improving economy

Global stock markets retreated on virus resurgence fears, particularly across US which reported record numbers of new cases that led to some rollback of the reopening plans. Meanwhile, the IMF downgraded its world economic outlook as it expects global GDP to shrink 4.9% in 2020 (vs. -3% previously) and warned that financial markets are disconnected from economic outlook. This, coupled with renewed threat by US to impose tariffs to EU related to their long-standing dispute over aircraft subsidies, overshadowed positive economic data earlier in the week from stronger than expected recoveries in manufacturing and services PMIs across Europe and US, including US durable goods orders and new home sales. US bank stocks also fell sharply as Fed's annual stress tests for big banks led to its new restrictions on banks' dividend payments and share buybacks.

JCI also retreated (-0.77%) on the back of sustained foreign equity outflow (net sell of Rp1.89Tn) although the bond market recorded a net inflow of Rp2.73Tn. News of the government placing Rp30Tn of deposits at BI into four SOE banks at a low interest rate to boost lending to real sector has improved sentiment on banks and mitigated market's correction. Bank sector index was the only gainer this week while mining, basic industries and property declined the most.

The Week Ahead – China & US Manufacturing PMI, US Non-Farm Payrolls

The key economic calendar to watch out for next week includes Indonesia 2W Sales (Mon 10:30), China NBS Manufacturing & Non-Manufacturing PMI (Tue 08:00), Fed Chair Powell Testimony (Tue 23:30), China Caixin Manufacturing PMI (Wed 08:45), Indonesia Markit Manufacturing PMI (Wed 07:30) & Inflation Rate (Wed 11:00), US ISM Manufact. PMI (Wed 21:00), FOMC Minutes (Thu 01:00), EU Unemployment (Thu 16:00), US Non-Farm Payrolls, Unemployment Rate, and Initial Jobless Claims (Thu 19:30), China Caixin Services PMI (Fri 08:45), and ECB President Lagarde Speech (Sat 17:40).

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 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, lacked defensive constituents such as BBKA and consumer stocks, thus are 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 15.5x and 15.0x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 and XIIT at 18.0x, and XIIML at 18.3x, and thus have more upside potential if Indonesia's stock market recovers on sustainable basis. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	25,015.55	-3.31%	-12.34%
S&P 500	3,009.05	-2.86%	-6.86%
Nasdaq	9,757.22	-1.90%	8.74%
FTSE 100	6,159.30	-2.12%	-18.34%
DAX	12,089.39	-1.96%	-8.75%
Nikkei 225	22,512.08	0.15%	-4.84%
Hang Seng	24,549.99	-0.38%	-12.91%
Shanghai	2,979.55	0.40%	-2.31%
EIDO	18.16	-2.05%	-29.23%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,047.42	0.60%	-22.68%
JAKMIND	884.86	-0.02%	-27.70%
JAKAGRI	1,033.79	-0.03%	-32.19%
JCI	4,904.09	-0.77%	-22.15%
JAKTRAD	601.48	-0.91%	-21.87%
JAKINFR	910.97	-1.24%	-19.92%
JAKCONS	1,800.02	-1.50%	-12.31%
JAKPROP	327.96	-2.03%	-34.91%
JAKBIND	713.06	-2.21%	-27.10%
JAKMINE	1,233.71	-2.71%	-20.34%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.17	-2 bps	-140 bps
UST 10Y Yield	0.64	-5 bps	-128 bps
Ind GB 10Y Yield	7.20	1 bps	13 bps
USDIDR	14,150	50	284
CDS Indo 5Y	134.12	-46.05	71.88

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.89 Tn	-31.41 Tn
Government Bond Market (Rp)	+2.86 Tn	-125.66 Tn

Commodities	Last	1W	YTD
WTI	38.49	-3.17%	-36.96%
Brent	41.02	-2.77%	-37.85%
CPO (Malaysia)	2,470.00	-0.08%	-17.28%
Coal (New Castle)	54.20	2.07%	-19.94%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	803.88	-0.68%	-23.20%
XIIT	IDX30	434.48	-0.58%	-23.20%
XIJI	JII	543.83	-1.34%	-22.87%
XISI	SMInfra18	256.67	-1.06%	-24.99%
XISR	Sri Kehati	314.35	-0.14%	-22.77%
XIHD	IDXHIDIV20	383.50	-1.01%	-23.91%
XIPI	Pefindo I-Grade	134.93	-0.52%	-24.79%
XIIML	MSCI Indo Large Cap	215.83	-0.39%	-
XIID	IDX30	416.70	-	-
XIIC	Consumer Related	890.53	0.07%	-21.43%
XIIF	Rate Sensitive	448.16	-0.42%	-29.32%
XISC	BUMN Stocks	518.81	0.30%	-28.13%
XISB	Sovereign Bonds	409.44	0.43%	-0.54%
<i>Conventional</i>				
RDMP	Equity	883.72	-0.06%	-24.19%
RPCF	Balanced	2,466.75	0.26%	-17.21%
RDPU2	Money Market	1,251.12	0.07%	2.30%

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. Cyclicals	Commodities	Cash	2020F	2019
1 RLQ45	31.7	47.0	15.2	5.2	0.8	18.0	3.5
2 XIIT	29.4	50.5	13.8	5.7	0.6	18.0	3.6
3 XISC	22.2	34.3	26.2	12.4	4.8	15.0	4.8
4 XISR	30.8	60.9	4.3	3.6	0.3	18.3	3.3
5 XIIF	16.6	50.6	30.4	0.0	2.3	18.7	3.2
6 XISI	49.7	14.4	23.7	11.5	0.7	15.5	4.4
7 XIPI	23.5	59.6	15.2	1.4	0.3	20.3	2.8
8 XIIC	48.3	34.5	10.1	0.0	7.2	18.5	3.4
9 XIHD	37.1	46.2	6.9	9.0	0.8	16.9	4.0
10 XIJI	55.4	12.4	22.2	9.6	0.4	17.9	3.5
11 XIML	27.1	65.8	4.0	2.7	0.4	18.3	3.6
12 XIID	29.6	49.9	14.2	5.6	0.7	18.0	3.6
Index							
IDX80	31.9	38.8	21.1	8.2	0.0	16.1	2.7
JCI	33.7	36.4	22.7	7.0	0.0	16.5	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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