

Fears over a new virus strain & UK travel bans offset vaccine rollout news

Happy Christmas & New Year Holidays! Global markets ended mixed during the holiday-shortened week as fears over a new, more infectious, coronavirus strain in the UK led to widespread travel bans and restrictions, offsetting good news from a broadening vaccine rollout as European Medicines Agency authorised use of Pfizer-BioNTech coronavirus vaccine, US government secured another 100 million doses of this vaccine, while Moderna started vaccine distribution. President Trump's refusal to sign fiscal relief package and military spending bills passed by US Congress has also added to economic uncertainty. Meanwhile, US economic data shows weaker than expected personal income/spending growth of -1.1%/-0.4% MoM in November, respectively (consensus: -0.3%/-0.2% MoM) and a decline in consumer confidence for December, while durable goods order (+0.9% MoM) was better than expected. Most European stock markets ended slightly lower this week as jitters over new coronavirus strain outweigh EU-UK post-Brexit trade agreement announced after UK markets closed, although this deal must still be approved by all EU member states.

In Indonesia, JCI fell 1.57% as foreigners were net sellers this week (-Rp1.4Tn) while they were net buyers in the bond market (+Rp1.9Tn) as the country's risk perception by investors has improved, as seen from sovereign CDS rate which is near all time low, while President Joko Widodo announced a cabinet reshuffle during the week. Leading the stock market's declines were large cap stocks in infrastructure, auto, consumer, and banking sectors.

The Week Ahead – China NBS Manufacturing & Non-Manufacturing PMIs

The key economic calendar to watch out for next week include BoJ Summary of Opinions & Japan Industrial Production (Mon 06:50), US Pending Home Sales (Wed 22:00), China NBS Manufacturing & Non-Manufacturing PMIs (Thu 08:00), US Initial Jobless Claims (Thu 20:30).

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 new waves of infections. We believe Indonesia's coronavirus fallout is already fully priced in as JCI's forward P/E valuation has fallen to 20-yr average, while global markets valuation have returned to pre-pandemic highs of 1SD above long-term mean. We view Indonesia's market valuation as attractive and expect JCI to continue its recovery, driven by catalysts such as vaccine discovery, Omnibus Law and Indonesia's improving macro outlook. With a persistent bullish market outlook, we maintain our 2021 JCI target of 6,600, for now.

Recommendation

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our ESG ETF XISR (Sri Kehati) or XIPI (Pefindo i-Grade), which have overweight positions in BBCA, which is considered as defensive stock at times of uncertainty. Please note that ESG (Environmental, Social & Governance) ETFs globally saw record inflows in 2020 amid the pandemic, after a strong rise in 2019. For investors looking to benefit from market rebound, our pick is ETF XIIM (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors are among most impacted by foreign selling and thus should benefit the most from recovery. XIIM 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 riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 15.5x and 15.0x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.3x), XIIT (at 17.1x), and XIIM (at 17.0x), and thus may continue to have more upside potential if Indonesia's stock market recovers on sustainable basis and investors continue to rotate away from defensive sectors into cyclical stocks on the back of vaccine distribution and expected economic recovery. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	30,199.87	0.07%	5.82%
S&P 500	3,703.06	-0.17%	14.62%
Nasdaq	12,804.73	0.38%	42.71%
FTSE 100	6,502.11	-0.41%	-13.79%
DAX	13,587.23	-0.32%	2.55%
Nikkei 225	26,656.61	-0.40%	12.68%
Hang Seng	26,386.56	-0.42%	-6.40%
Shanghai	3,396.56	0.05%	11.36%
EIDO	23.20	-3.17%	-9.59%

JCI Sector Indices	Last	1W	YTD
JAKAGRI	1,446.59	0.42%	-5.11%
JAKMINE	1,930.32	-0.46%	24.65%
JAKTRAD	764.90	-0.71%	-0.64%
JAKBIND	938.50	-0.97%	-4.05%
JAKPROP	404.69	-1.09%	-19.69%
JCI	6,008.71	-1.57%	-4.62%
JAKFIN	1,334.56	-1.88%	-1.48%
JAKCONS	1,841.90	-1.96%	-10.27%
JAKINFR	1,008.76	-2.10%	-11.32%
JAKMIND	1,081.37	-2.53%	-11.64%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.12	0 bps	-145 bps
UST 10Y Yield	0.93	-1 bps	-99 bps
Ind GB 10Y Yield	6.10	12 bps	-97 bps
USDIDR	14,282	136	416
CDS Indo 5Y	68.79	1.50	6.55

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.4 Tn	-61.28 Tn
Government Bond Market (Rp)	+1.89 Tn	-84.45 Tn

Commodities	Last	1W	YTD
WTI	48.23	-1.71%	-21.01%
Brent	51.29	-1.89%	-22.29%
CPO (Malaysia)	3,854.00	5.16%	29.07%
Coal (New Castle)	84.50	5.62%	24.82%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	976.53	-2.61%	-6.70%
XIIT	IDX30	518.17	-3.20%	-8.41%
XIJI	JII	644.38	-2.28%	-8.61%
XISI	SMInfra18	333.24	-1.66%	-2.61%
XISR	Sri Kehati	378.75	-3.00%	-6.94%
XIHD	IDXHIDIV20	459.97	-3.58%	-8.73%
XIPI	Pefindo I-Grade	173.65	-2.67%	-3.21%
XIIM	MSCI Indo Large Cap	255.15	-3.08%	-
XIID	IDX30	503.42	-3.21%	-
XIIC	Consumer Related	1,036.91	-2.86%	-8.51%
XIIF	Rate Sensitive	594.15	-3.88%	-6.29%
XISC	BUMN Stocks	758.87	-4.61%	5.12%
XISB	Sovereign Bonds	445.10	-0.78%	8.13%
<i>Conventional</i>				
RDMP	Equity	1,056.16	-3.28%	-9.39%
RPCF	Balanced	2,971.97	-2.82%	-0.26%
RDPU2	Money Market	1,283.25	0.08%	4.93%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Fund	Fund Characteristics (% of Portfolio)					Cash	P/E (x) 2021F	Dividend Yield 2021F	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities					
1 RLQ45	27.7	49.0	14.0	8.9	0.33	17.3	2.5	1.12	
2 XIIT	27.3	53.3	11.4	7.6	0.40	17.1	2.7	1.18	
3 XISC	19.5	31.6	27.3	18.6	3.12	15.0	3.0	1.22	
4 XISR	26.3	62.7	5.7	4.9	0.52	17.8	2.5	1.17	
5 XIIF	11.5	48.4	39.4	0.0	0.78	17.1	2.4	1.22	
6 XISI	45.3	14.9	24.8	14.7	0.32	15.5	2.9	1.13	
7 XIPI	20.2	59.5	17.5	2.3	0.52	19.1	2.1	1.20	
8 XIIC	42.8	42.8	12.9	0.0	1.44	17.4	2.8	1.10	
9 XIHD	31.6	49.7	6.6	11.8	0.36	16.8	2.9	1.17	
10 XIJI	49.8	1.5	31.9	16.4	0.36	21.6	2.2	1.09	
11 XI ML	21.8	70.5	4.0	3.6	0.18	17.0	2.7	1.20	
12 XIID	27.4	53.3	11.4	7.6	0.33	17.1	2.7	1.22	
Index									
IDX80	31.9	38.8	21.1	8.2		17.3	3.2		
JCI	30.0	38.2	22.7	9.1		16.6	2.2		

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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