

Positive vaccine news, strong US economic data, Fed's policy shift

Global markets opened the week strong due to positive news on coronavirus treatments and vaccines, as the FDA approved emergency use of blood plasma to treat Covid patients, reports that US government may fast track a vaccine candidate from Oxford University/AstraZeneca, while Moderna also stated its own vaccine showed promising results in a small trial of patients aged 56 and older. In addition, US economic data were above expectations with new home sales and durable goods order growth of 13.9% and 11.2% MoM, respectively, while personal spending grew 1.9% MoM in July. The Fed unveiled adjustment to inflation targeting to allow for overshoots above its 2% goal, thus facilitating current low rates to persist longer (positive for equities). However, the strong uptrend in US equities was not matched by global markets elsewhere in Europe and Asia, which lost momentum towards the end of the week.

In Indonesia, JCI closed the week 1.4% higher despite sustained foreign selling (net outflow: Rp3.2Tn), driven by banking, property and cement stocks, while tobacco stocks were the biggest losers, followed by Merdeka Copper & Gold, following private placements, and telecommunication stocks. However, foreign investors returned to the local bond market (net inflow: Rp4Tn) and the Rupiah appreciated against US dollars.

The Week Ahead – China PMI, Indonesia Inflation, US Unemployment Rate

The key economic calendar to watch out for next week include China NBS Manufacturing PMI (Mon 08:00), China Caixin Manufacturing PMI (Tue 08:45), Indonesia Inflation (Tue 11:00), EU Inflation (Tue 16:00), US ISM Manufacturing PMI (Tue 21:00), US Factory Orders (Wed 21:00), China Caixin Services PMI (Thu 08:45), EU Retail Sales (Thu 16:00), US Jobless Claims (Thu 19:30), US Non-Farm Payrolls and Unemployment Rate (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. We believe Indonesia's coronavirus fallout is already fully priced in as JCI P/E valuation has fallen to just above 20-yr average, while global markets valuation have returned to near pre-pandemic highs at 1SD above long-term averages. We view Indonesia's market valuation as attractive, regardless of GDP and earnings growth in 2020. Given high correlation factor of 0.80 between JCI and S&P500 indices in 2020 (vs. 0.19 in 2018-2019), we expect JCI will continue to recover, driven by global catalysts such as vaccine discovery. We now use our bullish-case 2020 JCI target of 5,600, set at the beginning of pandemic, as our base-case target of 5,300 has been achieved, as vaccine discovery prospect should become clearer as it gets nearer to the end of the year.

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 further market rebound, our pick is ETF XIIML (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 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, 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 2020 P/E of 18.6x and 18.1x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 20.6x), XIIT (at 20.4x), and XIIML (at 20.7x), 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	28,653.87	2.59%	0.40%
S&P 500	3,508.01	3.26%	8.58%
Nasdaq	11,695.63	3.39%	30.35%
FTSE 100	5,963.57	-0.64%	-20.93%
DAX	13,033.20	2.10%	-1.63%
Nikkei 225	22,882.65	-0.16%	-3.27%
Hang Seng	25,422.06	1.23%	-9.82%
Shanghai	3,403.81	0.68%	11.60%
EIDO	20.24	3.85%	-21.12%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,220.63	3.22%	-9.89%
JAKPROP	303.06	2.20%	-39.86%
JCI	5,346.66	1.40%	-15.13%
JAKBIND	769.17	0.84%	-21.36%
JAKCONS	1,954.70	0.56%	-4.77%
JAKTRAD	637.43	0.53%	-17.20%
JAKMIND	942.03	0.06%	-23.03%
JAKAGRI	1,183.20	-0.37%	-22.39%
JAKINFR	875.66	-0.71%	-23.02%
JAKMINE	1,415.33	-0.73%	-8.61%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.13	-1 bps	-144 bps
UST 10Y Yield	0.72	9 bps	-120 bps
Ind GB 10Y Yield	6.86	14 bps	-21 bps
USDIDR	14,632	-141	766
CDS Indo 5Y	96.92	-83.25	34.68

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-3.16 Tn	-43.2 Tn
Government Bond Market (Rp)	+4.00 Tn	-121.1 Tn

Commodities	Last	1W	YTD
WTI	42.93	1.39%	-29.69%
Brent	45.81	3.29%	-30.59%
CPO (Malaysia)	2,744.00	2.35%	-8.10%
Coal (New Castle)	50.60	1.61%	-25.26%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	902.14	1.64%	-13.81%
XIIT	IDX30	489.48	1.56%	-13.48%
XIJI	JII	579.40	0.50%	-17.83%
XISI	SMInfra18	281.38	1.35%	-17.76%
XISR	Sri Kehati	355.03	1.98%	-12.77%
XIHD	IDXHIDIV20	426.91	0.99%	-15.29%
XIPI	Pefindo I-Grade	151.35	2.17%	-15.64%
XIIML	MSCI Indo Large Cap	243.41	1.31%	-
XIID	IDX30	467.32	1.54%	-
XIIC	Consumer Related	982.04	1.55%	-13.35%
XIIF	Rate Sensitive	492.87	3.05%	-22.26%
XISC	BUMN Stocks	574.81	2.62%	-20.38%
XISB	Sovereign Bonds	420.16	-0.62%	2.07%
<i>Conventional</i>				
RDMP	Equity	971.88	1.43%	-16.62%
RPCF	Balanced	2,680.21	1.18%	-10.05%
RDP2U	Money Market	1,259.88	0.11%	3.01%

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	29.6	49.7	13.1	7.0	0.6	20.6	3.1
2	XIIT	29.3	53.1	11.0	6.3	0.3	20.4	3.2
3	XISC	20.3	37.1	22.7	13.8	6.1	18.1	4.2
4	XISR	27.7	63.5	4.0	4.5	0.3	21.4	3.0
5	XIIF	12.3	53.8	31.1	0.0	2.8	20.6	2.9
6	XISI	45.2	16.2	23.4	14.8	0.4	18.6	3.9
7	XIPI	20.2	63.2	15.0	1.3	0.2	23.4	2.5
8	XIIC	46.0	40.5	10.1	0.0	3.4	21.3	3.1
9	XIHD	33.8	49.6	6.4	9.8	0.4	20.3	3.6
10	XIJI	49.7	12.3	25.1	12.4	0.6	20.6	3.1
11	XIML	23.7	68.6	4.0	3.5	0.2	20.7	3.3
12	XIID	29.3	53.1	11.0	6.4	0.2	20.4	3.2
Index								
	IDX80	31.9	38.8	21.1	8.2		17.7	3.0
	JCI	32.6	37.3	21.8	8.3		19.3	2.3

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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