

Downtrend in US new Covid cases, stimulus hopes, positive economic data

Global equities closed the week mostly higher, led by US markets with S&P500 at near all time high, and supported by a downtrend in US new Covid cases and vaccine progress. US average daily confirmed new cases has declined to 51,418, from its peak of 68,555 in July, according to Johns Hopkins, while more vaccine candidates are entering final stage of clinical trials. Economic data is supportive as July industrial production in US and EU continued to grow, US retail sales ex-auto growth of 1.9% MoM was ahead of 1.3% expectation, despite its weaker headline sales growth of 1.2% (vs. 1.9% expected), and the weekly initial jobless claims fell to 963k (previously: 1,191k). Rising economic optimism, coupled with surprising rise in US core inflation rate to 1.6% YoY in July vs. 1.1% expectation, lifted oil prices to a five-month high, pushed bond yields higher and also led to a retreat in gold prices, as investor sold "safe haven assets".

In Indonesia, JCI gained 2.02% despite sustained foreign equity net outflows (as also seen in bond market), with banking, consumer and basic industries sectors as the key market drivers, while property & construction stocks also recovered after their sustained underperformances in the past few weeks. President Joko Widodo has stated that fiscal deficit in Indonesia's draft State Budget for 2021 will be maintained high at 5.5% of GDP to support economic recovery.

The Week Ahead – Indonesia BOP, BI Rate Decision, FOMC Minutes

The key economic calendar to watch out next week include Japan GDP Growth Rate (Mon 06:50), Indonesia Current Account (Tue 10:00), Indonesia 2W Sales (Tue 10:30), Indonesia Trade Balance & Business Confidence Index (Tue 11:00), US Housing Starts (Tue 19:30), BI Rate Decision (Wed 14:30), FOMC Minutes (Thu 01:00), US Initial Jobless Claims (Thu 19:30), Markit Manufacturing and Services PMI for EU (Fri 15:00) and US (Fri 20:45), and US Existing Home Sales (Fri 21:00).

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 just above 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 attractive, regardless of GDP and earnings growth in 2020. Given a high correlation factor of 0.80 between JCI and S&P500 indices in 2020 (vs. 0.19 in 2018-2019), we believe JCI will continue to recover, driven by global catalysts such as vaccine discovery, whose prospect may become clearer as we get nearer to end of the year, given large number (>150) of vaccine projects in development globally. We believe our 2020 JCI target of 5,300 is conservative (with 5,600 as our bullish case target for 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 potential market rebound, our pick is our ETF XIIM (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among the most impacted by foreign selling and thus may benefit from a recovery. XIIM 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 2020F P/E of 18.0x and 17.4x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 20.3x), XIIT (at 20.2x), and XIIM (at 20.5x), 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	27,931.02	1.81%	-2.13%
S&P 500	3,372.85	0.64%	4.40%
Nasdaq	11,019.30	0.08%	22.81%
FTSE 100	6,090.04	0.96%	-19.26%
DAX	12,901.34	1.79%	-2.62%
Nikkei 225	23,289.36	4.30%	-1.55%
Hang Seng	25,183.01	2.66%	-10.67%
Shanghai	3,360.10	0.18%	10.16%
EIDO	19.43	3.30%	-24.28%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,169.65	4.09%	-13.66%
JAKCONS	1,942.85	2.18%	-5.35%
JAKPROP	293.64	2.07%	-41.72%
JCI	5,247.69	2.02%	-16.70%
JAKBIND	764.10	1.88%	-21.88%
JAKMIND	950.12	1.45%	-22.37%
JAKAGRI	1,191.97	0.83%	-21.81%
JAKINFR	888.13	-0.37%	-21.93%
JAKMINE	1,411.04	-0.63%	-8.88%
JAKTRAD	626.65	-1.32%	-18.60%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	2 bps	-142 bps
UST 10Y Yield	0.71	15 bps	-121 bps
Ind GB 10Y Yield	6.76	-4 bps	-30 bps
USDIDR	14,720	95	854
CDS Indo 5Y	105.52	-3.35	43.28

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-859.4 Bn	-39.73 Tn
Government Bond Market (Rp)	-4.16 Tn	-120.3 Tn

Commodities	Last	1W	YTD
WTI	42.01	1.92%	-31.20%
Brent	44.80	0.90%	-32.12%
CPO (Malaysia)	2,686.00	-2.61%	-10.05%
Coal (New Castle)	50.50	-1.37%	-25.41%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	880.03	2.80%	-15.92%
XIIT	IDX30	477.92	2.98%	-15.53%
XJI	JII	577.29	0.73%	-18.13%
XISI	SMInfra18	274.36	0.44%	-19.81%
XISR	Sri Kehati	345.73	3.15%	-15.06%
XIHD	IDXHIDV20	418.62	2.70%	-16.94%
XIPI	Pefindo I-Grade	146.65	4.07%	-18.26%
XIIM	MSCI Indo Large Cap	238.50	3.17%	-
XIID	IDX30	456.41	2.97%	-
XIIC	Consumer Related	962.60	2.92%	-15.07%
XIIF	Rate Sensitive	468.67	4.39%	-26.08%
XISC	BUMN Stocks	548.49	2.62%	-24.02%
XISB	Sovereign Bonds	422.60	0.35%	2.66%
Conventional				
RDMP	Equity	949.79	2.78%	-18.52%
RPCF	Balanced	2,624.82	2.44%	-11.91%
RDPU2	Money Market	1,257.65	0.09%	2.83%

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	30.5	48.3	13.2	6.0	2.0	20.3	3.2
2	XIIT	30.2	52.2	10.9	6.3	0.3	20.2	3.3
3	XISC	20.3	36.9	23.2	13.8	5.7	17.4	4.5
4	XISR	28.5	62.9	3.7	4.5	0.4	21.0	3.0
5	XIIF	13.2	54.3	29.8	0.0	2.7	20.1	3.0
6	XISI	46.7	15.5	22.4	14.9	0.5	18.0	4.1
7	XIPI	21.0	62.1	15.4	1.3	0.2	23.0	2.6
8	XIIC	46.9	39.2	9.8	0.0	4.1	21.1	3.2
9	XIHD	34.9	48.5	6.5	9.7	0.4	20.1	3.6
10	XIJI	49.8	12.4	24.9	12.3	0.7	20.6	3.1
11	XIML	24.6	67.5	4.1	3.5	0.2	20.5	3.4
12	XIID	30.3	52.2	10.9	6.4	0.2	20.2	3.3
Index								
	IDX80	31.9	38.8	21.1	8.2		17.6	2.7
	JCI	32.6	37.3	21.8	8.3		19.1	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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