

Democrats' control of US Senate led to hopes of massive fiscal stimulus

Stock markets globally climbed to new highs as the prospects of a Democratic-controlled US government after 2 Senate seat wins in Georgia runoff elections will lead to greater fiscal support. Although these wins also raise the prospects of higher corporate tax rates, tax reform is viewed as unlikely to be a priority in 2021 given current state of the economy and considering the Democrat's very slim majority in both the US Senate and House of Representatives. This bullish market sentiment was despite a tumultuous week that saw assault on US Capitol Building by protestors during certification of Joe Biden's electoral college wins, a resurging pandemic globally, and sharply slowing US labor market. December nonfarm payrolls data showed job losses of 140K, its first monthly decline since April, well below consensus for job growth of 71K. However, manufacturing PMI data released by the Institute for Supply Management rose to 60.7, its highest level since August 2018. Meanwhile, US 10-year yields rose 20bps to 1.12% and oil prices jumped 8% on Saudi Arabia's surprise announcement of unilateral oil production cut by 1 million barrels per day.

In Indonesia, JCI rose 4.46% this week on the back of foreign equity inflows of Rp3.4Tn while the bond market saw inflows of Rp10Tn, which strengthened the currency. Auto, banking, telecommunication, basic industries and commodity sectors were the market leaders this week while consumer and property stocks were laggards.

The Week Ahead – Fed Chair Powell Speech, US Political Development

The key economic calendar to watch out next week are Indonesia Consumer Confidence (Mon 10:00), EU Industrial Production (Wed 17:00), US Inflation (Wed 20:30), US Jobless Claims (Thu 20:30), Fed Chair Powell Speech (Fri 00:30), Indonesia Trade Balance (Fri 11:00), US Retail Sales (Fri 20:30) and US Industrial Production (Fri 21:15). In politics, Democrats may decide to introduce articles of impeachment against President Trump next week.

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 distribution, 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 11 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 16.3x and 15.9x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.0x), XIIT (at 18.1x), and XIIM (at 17.8x), 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	31,097.97	1.61%	1.61%
S&P 500	3,824.68	1.83%	1.83%
Nasdaq	13,201.97	2.43%	2.43%
FTSE 100	6,873.26	6.39%	6.39%
DAX	14,049.53	2.41%	2.41%
Nikkei 225	28,139.03	2.53%	2.53%
Hang Seng	27,878.22	2.38%	2.38%
Shanghai	3,570.11	2.79%	2.79%
EIDO	24.52	4.70%	4.70%

JCI Sector Indices	Last	1W	YTD
JAKMINE	2,121.44	10.75%	10.75%
JAKBIND	988.96	7.38%	7.38%
JAKAGRI	1,582.94	5.67%	5.67%
JAKMIND	1,137.61	5.23%	5.23%
JAKINFR	1,050.60	4.95%	4.95%
JAKFIN	1,398.15	4.87%	4.87%
JCI	6,257.84	4.66%	4.66%
JAKTRAD	794.03	3.61%	3.61%
JAKPROP	403.86	1.76%	1.76%
JAKCONS	1,849.74	0.96%	0.96%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	2 bps	2 bps
UST 10Y Yield	1.12	20 bps	20 bps
Ind GB 10Y Yield	6.13	19 bps	19 bps
USDIDR	13,980	-125	-125
CDS Indo 5Y	68.42	0.91	0.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+3.4 Tn	+3.4 Tn
Government Bond Market (Rp)	+10.0 Tn	+10.0 Tn

Commodities	Last	1W	YTD
WTI	52.73	8.68%	8.68%
Brent	55.99	8.09%	8.09%
CPO (Malaysia)	3,965.00	1.90%	1.90%
Coal (New Castle)	84.30	3.56%	3.56%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,020.50	4.70%	4.70%
XIIT	IDX30	542.80	4.70%	4.70%
XIJI	JII	674.38	5.40%	5.40%
XISI	SMInfra18	345.18	3.98%	3.98%
XISR	Sri Kehati	394.93	4.12%	4.12%
XIHD	IDXHIDIV20	476.25	3.67%	3.67%
XIPI	Pefindo I-Grade	183.26	6.25%	6.25%
XIIML	MSCI Indo Large Cap	264.82	4.32%	4.32%
XIID	IDX30	527.18	4.68%	4.68%
XIIC	Consumer Related	1,066.61	3.12%	3.12%
XIIF	Rate Sensitive	620.10	5.35%	5.35%
XISC	BUMN Stocks	831.39	8.91%	8.91%
XISB	Sovereign Bonds	444.58	-0.35%	-0.35%
<i>Conventional</i>				
RDMP	Equity	1,095.27	3.60%	3.60%
RPCF	Balanced	3,025.97	1.35%	1.35%
RDP2	Money Market	1,285.81	0.10%	0.10%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2021F	2021F	JCI
1 RLQ45	27.3	49.2	14.0	9.3	0.09	18.0	2.4	1.12
2 XIIT	27.2	53.4	11.3	8.1	0.10	18.1	2.6	1.18
3 XISC	19.2	32.5	30.0	18.1	0.17	15.9	2.9	1.22
4 XISR	25.6	63.1	5.6	5.3	0.44	18.5	2.4	1.17
5 XIIF	11.3	48.6	39.5	0.0	0.60	18.0	2.4	1.22
6 XISI	44.2	15.0	25.4	15.1	0.25	16.3	2.9	1.13
7 XIPI	19.1	58.1	17.0	5.6	0.30	20.3	2.0	1.20
8 XIIC	42.7	43.6	12.5	0.0	1.26	18.4	2.7	1.10
9 XIHD	31.5	50.3	6.5	11.4	0.29	17.6	2.8	1.17
10 XIJI	48.6	1.4	32.2	17.6	0.28	21.7	2.1	1.09
11 XIML	21.6	70.5	3.9	3.6	0.38	17.8	2.7	1.20
12 XIID	27.0	53.4	11.3	8.1	0.26	18.1	2.6	1.22
Index								
IDX80	29.9	40.7	18.2	11.2		18.1	2.3	
JCI	29.3	39.3	21.9	9.3		17.3	2.7	

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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