

Positive vaccine & stimulus news countered by rising US-China tensions

Global markets' strong start earlier this week, driven by positive vaccine and EU stimulus news, fizzled after news of rising US jobless claims data and escalating US-China tensions as China retaliated by closing US consulate in response to closure of its Houston consulate. On the vaccine front, good news from Oxford University and AstraZeneca were also followed by positive clinical trial results of vaccine candidates by CanSino Biologics and Pfizer & BioNTech – the latter also announced a US\$1.95Bn deal with US government to deliver 100m doses if its vaccine proves to be safe and effective in a large phase three trial to begin later this month. In Europe, EU leaders agreed on a EUR750Bn recovery fund to help the region recover from the coronavirus crisis while US Congress is still in talks for a new fiscal stimulus bill. Meanwhile, US jobless claims data disappointed as it increased to 1.41m, from 1.31m in the prior week, which was the first increase since March.

In Indonesia, JCI closed flat, after initial gains, on the back of sustained foreign net outflows (Rp1.1Tn), while the bond market recorded foreign net inflows of Rp0.7Tn, which also lowered bond yields and strengthened the local currency. JCI sector indices for mining and plantation stocks were the major gainers while those for auto, property and construction sectors were key losers this week.

The Week Ahead – Fed Meeting, US & EU GDP Growth, China PMI Data

The key economic calendar to watch out for next week are Indonesia 2W Sales (Mon 10:30), US Durable Goods Orders (Mon 19:30), US Consumer Confidence (Tue 21:00), US Pending Home Sales (Wed 21:00), Fed Interest Rate Decision (Thu 01:00), Germany GDP Growth Rate (Thu 15:00), US GDP Growth Rate (Thu 19:30), US Initial Jobless Claims (Thu 19:30), China NBS Manufacturing & Non-Manufacturing PMI (Fri 08:00), EU GDP Growth Rate (Fri 16:00), and US Personal Income & Spending (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. 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 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 5,300 JCI target is conservative.

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 XIIML (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. 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 2020F P/E of 16.5x and 15.9x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.9x), XIIT (at 18.7x), and XIIML (at 19.4x), 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	26,469.89	-0.76%	-7.25%
S&P 500	3,215.63	-0.28%	-0.47%
Nasdaq	10,363.18	-1.33%	15.50%
FTSE 100	6,123.82	-2.65%	-18.81%
DAX	12,838.06	-0.63%	-3.10%
Nikkei 225	22,751.61	0.24%	-3.83%
Hang Seng	24,705.33	-1.53%	-12.36%
Shanghai	3,196.77	-0.54%	4.81%
EIDO	19.06	1.17%	-25.72%

JCI Sector Indices	Last	1W	YTD
JAKMINE	1,349.57	2.89%	-12.85%
JAKAGRI	1,145.16	2.82%	-24.88%
JAKTRAD	612.43	0.76%	-20.45%
JAKINFR	897.12	0.68%	-21.14%
JAKFIN	1,104.69	0.43%	-18.45%
JCI	5,082.99	0.07%	-19.31%
JAKCONS	1,851.24	-0.70%	-9.81%
JAKBIND	778.31	-0.90%	-20.43%
JAKPROP	303.96	-1.72%	-39.68%
JAKMIND	905.56	-2.07%	-26.01%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	0 bps	-142 bps
UST 10Y Yield	0.59	-4 bps	-133 bps
Ind GB 10Y Yield	6.87	-20 bps	-20 bps
USDIDR	14,610	-93	744
CDS Indo 5Y	115.46	-11.63	53.22

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.13 Tn	-35.34 Tn
Government Bond Market (Rp)	689 Bn	-122.44 Tn

Commodities	Last	1W	YTD
WTI	41.34	1.85%	-32.30%
Brent	43.34	0.46%	-34.33%
CPO (Malaysia)	2,708.00	3.60%	-9.31%
Coal (New Castle)	52.00	-0.38%	-23.19%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	840.97	-0.10%	-19.65%
XIIT	IDX30	454.70	-0.06%	-19.63%
XIJI	JII	562.20	-0.48%	-20.27%
XISI	SMInfra18	266.17	0.69%	-22.21%
XISR	Sri Kehati	328.27	0.33%	-19.35%
XIHD	IDXHIDIV20	399.88	0.38%	-20.66%
XIPI	Pefindo I-Grade	140.88	0.31%	-21.48%
XIIML	MSCI Indo Large Cap	225.71	-0.14%	-
XIID	IDX30	435.17	-0.08%	-
XIIC	Consumer Related	917.77	-0.13%	-19.02%
XIIF	Rate Sensitive	457.92	-0.46%	-27.78%
XISC	BUMN Stocks	533.03	0.02%	-26.16%
XISB	Sovereign Bonds	418.37	1.51%	1.63%
<i>Conventional</i>				
RDMP	Equity	909.35	0.33%	-21.99%
RPCF	Balanced	2,535.88	0.25%	-14.89%
RDP2U	Money Market	1,254.77	0.07%	2.60%

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. Cyclical	Commodities	Cash	2020F	2019
1 RLQ45	30.3	47.6	15.5	5.6	0.9	18.9	3.4
2 XIIT	27.8	51.0	14.0	6.1	1.2	18.7	3.5
3 XISC	20.8	34.6	26.1	13.1	5.4	15.9	4.7
4 XISR	29.4	62.2	4.0	4.1	0.4	19.5	3.2
5 XIIF	15.6	51.8	30.1	0.0	2.5	19.9	3.1
6 XISI	48.4	14.7	23.1	13.0	0.8	16.5	4.3
7 XIPI	21.4	60.3	16.2	1.2	0.9	21.7	2.7
8 XIIC	47.1	37.4	10.1	0.0	5.4	19.5	3.3
9 XIHD	35.8	47.4	6.8	9.5	0.4	18.0	3.9
10 XIJI	53.2	12.6	23.1	10.6	0.6	18.9	3.4
11 XIIML	25.3	66.7	4.1	3.0	0.8	19.4	3.5
12 XIID	28.0	50.4	14.4	6.0	1.1	18.7	3.5
Index							
IDX80	31.9	38.8	21.1	8.2	0.0	17.1	2.7
JCI	32.9	37.3	22.2	7.5	0.0	17.7	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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