

Stock markets fell as tech sell-off continued amid Fed's dovish stance

US stock market indices fell for a third straight week as tech sell-off continued amid the Fed's dovish stance and upward revision of US 2020 GDP projection to -3.7% (from -6.5%). The Fed's policy statement and forward guidance implies rates to remain near 0% through 2023 but made no changes to its quantitative easing program while Fed Chair Jerome Powell repeated his call for a stronger fiscal response to help economic recovery, which may have raised concerns that the Fed's ability to drive recovery is waning. Furthermore, both headline and core (ex Autos) retail sales of 0.6% and 0.7% MoM in August, respectively, were below consensus while July's growth was also revised down, indicating impact of expiration of extended unemployment benefits. Elsewhere in Europe, the BoE warns coronavirus resurgence and a hard Brexit could slow UK recovery, and it is surprisingly considering possibility of negative rates in the UK, while in Japan, the BoJ stated the economy remained in severe condition with exports down by 14.8% YoY in August, albeit improving from -19.2% in July.

In Indonesia, JCI recovered to close 0.85% higher despite sustaining net foreign outflows of Rp3.75Tn, as reimposition of large-scale mobility restrictions (PSBB) in Jakarta was considered less stringent than previously imposed in April-June. BI decided to keep policy rate steady at 4% to maintain currency stability amid foreign net outflows of Rp6.55Tn from bond market. Banking, consumer and mining indices were laggards, while property & construction, basic and misc. industries and infrastructure sectors outperformed this week.

The Week Ahead – ECB & Fed Chair Testimonies, Markit PMIs for EU & US

The key economic calendar to watch out next week are ECB President Lagarde Speech (Mon 19:45), US Existing Home Sales (Tue 21:00), Markit Manufacturing & Services PMIs for France, Germany, EU, UK (Wed 14:15-15:30), and US (Wed 20:45), Fed Chair Powell Testimony (Wed 21:00), US Jobless Claims (Thu 19:30), US New Home Sales (Thu 21:00), and US Durable Goods Orders (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. However, given reimposition of mobility restrictions in Jakarta, which will have negative impacts on economic growth and equity earnings, we return to our base-case 2020 JCI target of 5,300 (bullish case target is 5,600).

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), which have an overweight position in BBKA, which is considered as defensive stock at times of market uncertainty. Please note ESG (Environmental, Social & Governance) ETFs globally saw record inflows of over US\$19bn in 2020 amid pandemic, continuing its strong rise since 2019. 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 2020F P/E of 17.2x and 16.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.7x), XIIT (at 18.8x), and XIIML (at 18.8x), 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	27,657.42	-0.03%	-3.09%
S&P 500	3,319.47	-0.64%	2.75%
Nasdaq	10,793.28	-0.56%	20.29%
FTSE 100	6,007.05	-0.42%	-20.36%
DAX	13,116.25	-0.66%	-1.00%
Nikkei 225	23,360.30	-0.20%	-1.25%
Hang Seng	24,455.41	-0.20%	-13.25%
Shanghai	3,338.09	2.38%	9.44%
EIDO	18.06	1.40%	-29.62%

JCI Sector Indices	Last	1W	YTD
JAKPROP	347.88	12.74%	-30.96%
JAKBIND	724.95	3.47%	-25.88%
JAKMIND	866.54	3.30%	-29.20%
JAKTRAD	636.54	2.99%	-17.32%
JAKINFR	838.08	1.78%	-26.33%
JAKAGRI	1,171.73	1.58%	-23.14%
JCI	5,059.22	0.85%	-19.69%
JAKMINE	1,370.43	-0.04%	-11.51%
JAKCONS	1,884.34	-1.29%	-8.20%
JAKFIN	1,093.79	-1.43%	-19.26%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	1 bps	-143 bps
UST 10Y Yield	0.70	3 bps	-122 bps
Ind GB 10Y Yield	6.92	-4 bps	-15 bps
USDIDR	14,730	-160	864
CDS Indo 5Y	92.64	-0.45	30.40

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-3.75 Tn	-56.25 Tn
Government Bond Market (Rp)	-6.55 Tn	-128.20Tn

Commodities	Last	1W	YTD
WTI	41.11	10.13%	-32.67%
Brent	43.15	8.34%	-34.62%
CPO (Malaysia)	3,080.00	10.87%	3.15%
Coal (New Castle)	52.05	2.56%	-23.12%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	815.40	0.25%	-22.10%
XIIT	IDX30	441.93	0.13%	-21.89%
XIJI	JII	551.46	1.07%	-21.79%
XISI	SMInfra18	260.12	1.20%	-23.98%
XISR	Sri Kehati	322.36	-1.10%	-20.80%
XIHD	IDXHIDIV20	395.26	0.33%	-21.57%
XIPI	Pefindo I-Grade	136.94	-0.36%	-23.67%
XIIML	MSCI Indo Large Cap	221.29	-0.60%	-
XIID	IDX30	430.14	0.12%	-
XIIC	Consumer Related	908.05	-0.01%	-19.88%
XIIF	Rate Sensitive	435.25	0.33%	-31.35%
XISC	BUMN Stocks	499.89	-0.28%	-30.75%
XISB	Sovereign Bonds	418.88	-0.15%	1.75%
<i>Conventional</i>				
RDMP	Equity	884.55	-0.56%	-24.11%
RPCF	Balanced	2,485.23	-0.40%	-16.59%
RDP2	Money Market	1,263.00	0.08%	3.27%

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	31.1	47.2	13.5	7.8	0.5	18.7	3.5	
2 XIIT	30.5	50.7	11.5	6.9	0.4	18.8	3.5	
3 XISC	21.2	38.1	22.5	16.4	1.8	16.6	4.7	
4 XISR	29.3	61.4	4.0	5.0	0.3	19.6	3.3	
5 XIIF	12.7	56.3	30.6	0.0	0.4	18.4	3.2	
6 XISI	45.3	15.5	22.8	15.9	0.5	17.2	4.3	
7 XIPI	21.6	61.5	15.3	1.3	0.3	21.2	2.8	
8 XIIC	47.0	40.5	11.7	0.0	0.8	19.4	3.4	
9 XIHD	35.2	47.4	6.7	10.4	0.4	18.6	3.9	
10 XIJI	50.1	11.5	24.8	12.9	0.6	19.9	3.2	
11 XIIML	25.1	66.3	4.5	3.9	0.3	18.8	3.7	
12 XIID	30.6	50.8	11.5	6.9	0.2	18.8	3.5	
Index								
IDX80	31.9	38.8	21.1	8.2		16.8	3.3	
JCI	32.5	36.9	22.5	7.9		18.5	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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