

Covid cases resurgence hit global equities despite upbeat economic data

Global stock markets suffered their biggest weekly declines since March due to record high Covid cases in US and Europe, US election uncertainty, and the end of hope for a pre-election fiscal stimulus agreement. Major European countries have reinstated lockdowns and ECB President Lagarde stated the economy was losing momentum faster than expected and more monetary stimulus would be coming by December. Meanwhile, investor worries over tightening US election that could lower the Democrats' chances of winning the Senate also weigh on sentiment as this could reduce size of an eventual stimulus package. The stock market corrections were despite an upbeat US economic data from better than expected US GDP growth of -2.90% YoY in Q3 (Q2: -9.00%), stronger growth of durable goods order (+1.9% MoM), personal income (+0.9% MoM), personal spending (+1.4% MoM) in September, and lower weekly jobless claims of 751k, while in Europe, EU GDP growth of -4.3% YoY in Q3 (Q2: -14.8%) was also well ahead of consensus expectation of -7.0%. There was also positive vaccine news from AstraZeneca, which reported a robust immune response in elderly people.

In Indonesia, JCI closed 0.31% higher, as market opened only during the first two trading days of the week and thus unaffected by the fall in global markets, while foreign equity flows also turned into an inflow of Rp152.7Bn. Key market drivers include plantation, property & construction, and banking sectors, while mining, consumer, and telecommunication sectors were laggards.

The Week Ahead – US Presidential Election, Indonesia Q3 GDP Growth

The key economic calendar to watch out for next week include Indonesia Market Manufacturing PMI (Mon 07:30), China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 22:00), US Presidential Election (Tue 3rd Nov), China Caixin Services PMI (Wed 08:45), Indonesia GDP Growth Rate (Thu 11:00), EU Retail Sales (Thu 17:00), US Initial Jobless Claims (Thu 20:30), Fed Interest Rate Decision (Fri 02:00), US Non Farm Payrolls & Unemployment Rate (Fri 20:30).

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 trailing P/E valuation has fallen to its 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, and maintain 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 the pandemic, continuing its strong rise since 2019. For investors looking to benefit from 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 forward 2021F P/E of 12.5x and 11.9x, respectively, which are lower than valuation of broad-based ETFs RLQ45 (at 15.1x), XIIT (at 15.0x), XIIML (at 14.9x), 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	26,501.60	-6.47%	-7.14%
S&P 500	3,269.96	-5.64%	1.21%
Nasdaq	10,911.59	-5.51%	21.61%
FTSE 100	5,577.27	-4.83%	-26.05%
DAX	11,556.48	-8.61%	-12.77%
Nikkei 225	22,977.13	-2.29%	-2.87%
Hang Seng	24,107.42	-3.26%	-14.48%
Shanghai	3,224.53	-1.63%	5.72%
EIDO	18.28	-3.28%	-28.76%

JCI Sector Indices	Last	1W	YTD
JAKAGRI	1,199.64	3.23%	-21.31%
JAKPROP	330.97	2.23%	-34.32%
JAKFIN	1,139.65	1.11%	-15.87%
JAKTRAD	642.88	1.00%	-16.49%
JAKMIND	958.06	0.67%	-21.72%
JCI	5,128.23	0.31%	-18.59%
JAKBIND	762.32	-0.43%	-22.06%
JAKINFR	808.58	-0.51%	-28.92%
JAKCONS	1,805.20	-1.13%	-12.06%
JAKMINE	1,418.02	-1.22%	-8.43%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0 bps	-141 bps
UST 10Y Yield	0.87	3 bps	-104 bps
Ind GB 10Y Yield	6.70	6 bps	-36 bps
USDIDR	14,620	-38	754
CDS Indo 5Y	99.45	5.46	37.21

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+152.77Bn	-62.68 Tn
Government Bond Market (Rp)	+2.09 Tn	-106.03Tn

Commodities	Last	1W	YTD
WTI	35.79	-10.19%	-41.39%
Brent	37.94	-9.17%	-42.52%
CPO (Malaysia)	3,177.00	7.99%	6.40%
Coal (New Castle)	59.25	2.16%	-12.48%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	825.53	0.06%	-21.13%
XIIT	IDX30	443.31	0.07%	-21.64%
XIJI	JII	555.94	-0.99%	-21.15%
XISI	SMInfra18	258.14	-0.42%	-24.56%
XISR	Sri Kehati	326.01	0.26%	-19.90%
XIHD	IDXHIDIV20	392.17	0.26%	-22.18%
XIPI	Pefindo I-Grade	141.59	0.64%	-21.08%
XIIML	MSCI Indo Large Cap	221.25	0.38%	-
XIID	IDX30	431.13	0.06%	-
XIIC	Consumer Related	908.58	-0.04%	-19.83%
XIIF	Rate Sensitive	459.06	0.06%	-27.60%
XISC	BUMN Stocks	528.90	-0.19%	-26.74%
XISB	Sovereign Bonds	425.25	0.08%	3.30%
<i>Conventional</i>				
RDMP	Equity	886.03	-0.29%	-23.99%
RPCF	Balanced	2,522.95	0.18%	-15.33%
RDP2U	Money Market	1,271.04	0.07%	3.93%

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	
1 RLQ45	29.2	49.3	13.3	7.8	0.4	15.1	2.9	1.11
2 XIIT	28.5	53.2	11.2	6.7	0.4	15.0	3.1	1.19
3 XISC	20.0	37.3	23.9	14.7	4.1	11.9	3.8	1.33
4 XISR	27.6	63.4	4.1	4.7	0.2	15.2	2.9	1.16
5 XIIF	11.5	55.4	32.5	0.0	0.6	14.3	2.9	1.32
6 XISI	44.7	16.0	24.0	14.2	1.2	12.5	3.7	1.20
7 XIPI	19.9	60.8	17.1	1.7	0.5	15.8	2.5	1.20
8 XIIC	45.4	42.4	11.8	0.0	0.5	15.5	3.2	1.10
9 XIHD	33.2	50.0	6.6	9.9	0.3	14.8	3.3	1.18
10 XIJI	47.6	12.9	26.1	12.9	0.5	17.3	2.7	1.10
11 XIIML	23.2	68.8	4.1	3.3	0.5	14.9	3.4	1.17
12 XIID	28.6	53.0	11.2	6.7	0.5	15.0	3.1	1.19
Index								
IDX80	31.9	38.8	21.1	8.2		14.2	2.9	
JCI	32.4	37.2	22.5	7.8		14.4	2.1	

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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