

Vaccine news and lower US political uncertainty fueled growing optimism

Global equities started the holiday-shortened week on strong footing, buoyed by positive news from AstraZeneca that their vaccine was up to 90% effective, despite questions on dosing regimen and the way vaccine was tested, and an acknowledgment by US General Services Administration that Joe Biden can officially begin transition, thus lowering political uncertainty. News reports that Joe Biden was preparing to nominate former Federal Reserve Chair Janet Yellen as Treasury Secretary were also well received by investors. Growing optimism of economic recovery pushed stocks and oil prices higher, while safe haven assets such as bonds and gold slumped, despite mixed economic data released during the week. US Markit Manufacturing and Services PMI data for November were stronger than expected, as also for Durable Goods Order growth of 1.3% MoM in October, while Jobless Claims rose to 778K (previously 748K) and Personal Income decreased 0.7% MoM in October (previously: +0.7% MoM).

In Indonesia, JCI gained 3.80% as foreign inflows continued into fifth week with Net Buy of Rp417.6Bn, particularly in telecommunication and banking sectors, as also in bond market (Rp1.34Tn). Leading the market are cyclical sectors such as mining, property and construction, and basic industries, while automotive and banking sectors were laggards, the latter largely due to correction of BBCA. Indonesia's currency strengthened while CDS rate also improved to 72.5 or only 10.3 point above its pre-pandemic record lows of 62.2 at the end of 2019.

The Week Ahead – Markit Manufacturing PMI for China & Indonesia

The key economic calendar to watch out next week are China Manufacturing and Non Manufacturing PMI (Mon 08:00), Indonesia Markit Manufacturing PMI (Tue 07:30), China Caixin Manufacturing PMI (Tue 08:45), Indonesia Inflation & Business Confidence (Tue 11:00), US ISM Manufacturing PMI (Tue 22:00), Fed Chair Powell Testimony (Wed 22:00), China Caixin Services PMI (Thu 08:45), EU Retail Sales (Thu 17:00), and US Initial Jobless Claims (Thu 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'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 positive catalysts such as vaccine discovery, Omnibus Law and Indonesia's improving macro outlook. We maintain our 2021 JCI target of 6,300-6,600.

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) 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 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 recovery. XIIML 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 15.6x and 15.1x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.3x), XIIT (at 17.3x), and XIIML (at 17.1x), and thus may have more upside potential if Indonesia's stock market recovers on sustainable basis and investors are rotating away from defensive into cyclical sectors, which should benefit the most from vaccine discovery and economic recovery. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	29,910.37	2.21%	4.81%
S&P 500	3,638.35	2.27%	12.62%
Nasdaq	12,205.85	2.96%	36.03%
FTSE 100	6,367.58	0.25%	-15.58%
DAX	13,335.68	1.51%	0.65%
Nikkei 225	26,644.71	4.38%	12.63%
Hang Seng	26,894.68	1.68%	-4.59%
Shanghai	3,408.31	0.91%	11.74%
EIDO	22.69	5.14%	-11.57%

JCI Sector Indices	Last	1W	YTD
JAKMINE	1,677.46	7.33%	8.32%
JAKPROP	378.50	7.26%	-24.88%
JAKBIND	892.08	6.67%	-8.80%
JAKINFR	994.70	6.37%	-12.56%
JAKTRAD	697.35	5.93%	-9.42%
JAKAGRI	1,288.61	4.05%	-15.47%
JCI	5,783.34	3.80%	-8.19%
JAKFIN	1,302.22	2.24%	-3.87%
JAKCONS	1,888.60	1.74%	-7.99%
JAKMIND	997.32	-1.12%	-18.51%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	-1 bps	-142 bps
UST 10Y Yield	0.84	2 bps	-108 bps
Ind GB 10Y Yield	6.22	2 bps	-84 bps
USDIDR	14,090	-60	224
CDS Indo 5Y	72.50	-6.82	10.26

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+417.6 Bn	-56.4 Tn
Government Bond Market (Rp)	+1.34 Tn	-93.62 Tn

Commodities	Last	1W	YTD
WTI	45.53	7.33%	-25.43%
Brent	48.28	7.38%	-26.85%
CPO (Malaysia)	3,505.00	0.63%	17.38%
Coal (New Castle)	69.55	9.79%	2.73%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	959.25	3.88%	-8.35%
XIIT	IDX30	516.05	3.70%	-8.79%
XIJI	JII	629.57	4.23%	-10.71%
XISI	SMInfra18	316.40	7.85%	-7.53%
XISR	Sri Kehati	375.71	2.54%	-7.69%
XIHD	IDXHIDIV20	463.78	5.06%	-7.98%
XIPI	Pefindo I-Grade	169.89	4.46%	-5.31%
XIIML	MSCI Indo Large Cap	255.39	2.52%	-
XIID	IDX30	501.58	3.68%	-
XIIC	Consumer Related	1,032.29	3.11%	-8.92%
XIIF	Rate Sensitive	566.11	5.94%	-10.71%
XISC	BUMN Stocks	687.19	8.02%	-4.81%
XISB	Sovereign Bonds	438.19	0.53%	6.45%
<i>Conventional</i>				
RDMP	Equity	1,032.30	4.77%	-11.44%
RPCF	Balanced	2,900.10	3.87%	-2.67%
RDP2	Money Market	1,277.90	0.12%	4.49%

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. Cyclicals	Commodities	Cash	2021F	2021F		
1 RLQ45	29.0	49.5	13.4	7.9	0.28	17.3	2.6	1.12	
2 XIIT	28.7	53.1	11.0	6.8	0.34	17.3	2.7	1.18	
3 XISC	20.7	35.5	28.4	14.5	0.84	15.1	3.0	1.23	
4 XISR	27.1	63.3	4.7	4.7	0.20	17.6	2.5	1.17	
5 XIIF	11.9	53.0	34.4	0.0	0.65	16.9	2.5	1.22	
6 XISI	44.4	16.2	24.7	14.4	0.31	15.6	3.0	1.13	
7 XIPI	20.5	60.4	17.0	1.7	0.34	18.9	2.2	1.20	
8 XIIC	43.7	42.6	12.1	0.0	1.58	17.6	2.8	1.10	
9 XIHD	33.2	49.4	6.7	10.5	0.34	16.9	2.9	1.18	
10 XIJI	47.4	11.8	27.2	13.3	0.29	19.6	2.4	1.09	
11 XIML	23.9	68.5	3.9	3.4	0.36	17.1	2.9	1.20	
12 XIID	28.8	53.0	11.0	6.8	0.32	17.3	2.7	1.22	
Index									
IDX80	31.9	38.8	21.1	8.2		16.2	2.8		
JCI	30.4	38.6	22.5	8.4		16.2	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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