

Global markets gained in 2020 during pandemic on recovery optimism

Stocks climbed in most major markets this week as vaccine rollouts broadened, US stimulus signed, while EU agreed on a trade deal with UK and an investment treaty with China. 2020 turned out to be a solid year for major stock markets, despite pandemic, with emerging equities minimising losses on expectations of a recovery year in 2021. The best performing Asian stock markets in 2020 were South Korea, Taiwan, Japan, India, China, and Vietnam, while Southeast Asian markets mostly reported small losses for the year after their strong recoveries in the past few months. This optimism was despite record high hospitalisations, discovery of a new virus strain, slower than expected vaccine distribution in US, and renewed economic lockdowns and restrictions globally. A light economic calendar this week showed weaker US pending home sales in November (-2.6% MoM) but better weekly jobless claims of 787k (vs. 806k in prior week).

In Indonesia, JCI fell 0.49% despite small inflow Rp272Bn while foreign outflow in the bond market was larger at Rp1.9Tn this week. Cyclical stocks in property, basic industries, infrastructure and mining sectors led the market down. On the vaccine front, Indonesia secured supply of 100mn doses from AstraZeneca and Novavax, aside from 125mn doses from Sinovac, although these vaccines are still pending local regulatory approval.

The Week Ahead – US Congress meeting to certify Joe Biden’s election win

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 (Mon 11:00) & Retail Sales (Tue 10:00), China Caixin Services PMI (Wed 08:45), US Factory Orders (Wed 22:00), FOMC Minutes (Thu 02:00), EU Retail Sales (Thu 17:00), US Jobless Claims (Thu 20:30) & Non Farm Payrolls (Fri 20:30). On political front, US Congress’ meeting on 6th January to certify Joe Biden’s Electoral College win will face challenges from President Trump’s allies, as a final attempt to overturn the US presidential election outcome.

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 discovery, 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 BBKA, 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 15 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 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 riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 15.5x and 15.1x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.3x), XIIT (at 17.1x), and XIIM (at 16.9x), 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	2020
DJIA	30,606.48	1.35%	7.25%
S&P 500	3,756.07	1.43%	16.26%
Nasdaq	12,888.28	0.65%	43.64%
FTSE 100	6,460.52	-0.64%	-14.34%
DAX	13,718.78	0.97%	3.55%
Nikkei 225	27,444.17	2.95%	16.01%
Hang Seng	27,231.13	3.20%	-3.40%
Shanghai	3,473.07	2.25%	13.87%
EIDO	23.42	0.95%	-8.73%

JCI Sector Indices	Last	1W	2020
JAKAGRI	1,497.95	3.55%	-1.74%
JAKTRAD	766.37	0.19%	-0.45%
JAKMIND	1,081.05	-0.03%	-11.67%
JAKFIN	1,333.18	-0.10%	-1.59%
JCI	5,979.07	-0.49%	-5.09%
JAKCONS	1,832.11	-0.53%	-10.74%
JAKMINE	1,915.56	-0.76%	23.69%
JAKINFR	1,001.02	-0.77%	-12.00%
JAKBIND	920.97	-1.87%	-5.84%
JAKPROP	396.89	-1.93%	-21.23%

Rates and Bonds	Last	1W	2020
UST 2Y Yield	0.12	0 bps	-145 bps
UST 10Y Yield	0.92	-1 bps	-100 bps
Ind GB 10Y Yield	5.94	-16 bps	-112 bps
USDIDR	14,105	-177	239
CDS Indo 5Y	67.51	-1.28	5.27

Foreign Fund Flows	1W	2020
Equity Regular Market (Rp)	+272.46 Bn	-61.01 Tn
Government Bond Market (Rp)	-1.91 Tn	-88.87 Tn

Commodities	Last	1W	2020
WTI	48.52	0.60%	-20.54%
Brent	51.80	0.99%	-21.52%
CPO (Malaysia)	3,891.00	0.96%	30.31%
Coal (New Castle)	81.40	-3.67%	20.24%

Funds and ETFs	Last	1W	2020	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	974.64	-0.19%	-6.88%
XIIT	IDX30	518.42	0.05%	-8.37%
XIJI	JII	639.82	-0.71%	-9.26%
XISI	SMInfra18	331.98	-0.38%	-2.98%
XISR	Sri Kehati	379.29	0.14%	-6.81%
XIHD	IDXHIDIV20	459.39	-0.13%	-8.85%
XIPI	Pefindo I-Grade	172.48	-0.67%	-3.86%
XIIM	MSCI Indo Large Cap	253.84	-0.51%	-
XIID	IDX30	503.60	0.04%	-
XIIC	Consumer Related	1,034.35	-0.25%	-8.74%
XIIF	Rate Sensitive	588.61	-0.93%	-7.17%
XISC	BUMN Stocks	763.39	0.60%	5.75%
XISB	Sovereign Bonds	446.14	0.23%	8.38%
<i>Conventional</i>				
RDMP	Equity	1,057.18	0.10%	-9.30%
RPCF	Balanced	2,985.58	0.46%	0.20%
RDP2	Money Market	1,284.55	0.10%	5.03%

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	27.7	49.2	13.9	8.9	0.31	17.3	2.6	1.12
2	XIIT	27.3	53.3	11.3	7.7	0.39	17.1	2.7	1.18
3	XISC	20.0	30.9	29.8	18.9	0.36	15.1	3.0	1.23
4	XISR	26.1	62.7	5.7	5.0	0.49	17.7	2.5	1.17
5	XIIF	11.5	48.5	39.3	0.0	0.72	17.1	2.4	1.22
6	XISI	44.5	14.9	25.3	14.9	0.30	15.5	3.0	1.13
7	XIPI	20.1	59.8	17.1	2.5	0.49	19.0	2.1	1.20
8	XIIC	43.1	42.8	12.7	0.0	1.38	17.5	2.8	1.10
9	XIHD	31.6	49.8	6.6	11.6	0.33	16.8	2.9	1.18
10	XIJI	50.2	1.4	31.5	16.6	0.33	19.9	2.4	1.09
11	XIML	21.6	70.2	4.0	3.7	0.57	16.9	3.0	1.20
12	XIID	27.4	53.3	11.4	7.7	0.30	17.1	2.7	1.22
Index									
	IDX80	30.4	40.7	18.1	10.8		17.2	3.2	
	JCI	30.1	38.1	22.4	9.3		16.5	2.2	

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

PT Indo Premier Investment Management

Telp. 021-57931260

Fund Sales Team

Noviono Darmosusilo	Director	noviono.d@ipc.co.id	ext	170	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	ext	560	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	ext	620	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	ext	625	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	ext	136	0857-9494-5058

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