

Stock markets pricing-in a Joe Biden win and legislative status quo

Global equities jumped to best weekly gains since April, anticipating Joe Biden's win of US Presidential election and a divided Congress, as Republicans are likely to retain control of the Senate, and discounting risk from a contested election. This election outcome supports additional fiscal stimulus (albeit smaller in size) and more limited tax increases and regulations than under a Democratic sweep scenario. Economic data was also supportive as US economy added 638,000 jobs in October, which lowered unemployment rate to 6.9% (from 7.9%), while the Fed, although announcing no change to its monetary policy, stated it still has monetary tools to boost the economy if needed and left open possibility to expand its quantitative easing programs. Meanwhile, China's Manufacturing & Services PMI data, at 53.6 and 56.8 in October, respectively, are also better than expected and show continued robust expansions, although Europe's retail sales fell short of expectations with growth of 2.2% YoY in September (from 4.4%).

In Indonesia, JCI gained 4.04% as foreign inflows continued into second week (net buy: Rp869.8Bn), while the bond market saw outflow of Rp3.60Tn. IDR/USD exchange rate strengthened in line with improvement in country risk perception as implied by the continuing fall of Indonesia's 5-year CDS rate to 84.3 (-15.12), while 10-year yields also fell by 17bps to 6.44%, which are near record lows. Key market drivers were auto, banking, basic industries, and telecommunication sectors while laggards were consumer, property, construction, and agriculture stocks. The JCI's gain was despite release of weaker than expected Indonesia's Q3 GDP growth of -3.46% YoY in Q3 (Q2: -5.32%).

The Week Ahead – Indonesia Current Account, US Political Development

The key economic calendar to watch out for next week are Indonesia Consumer Confidence (Mon 10:00), ECB President Lagarde Speech (Mon 16:25), Indonesia Current Account (Tue 10:00), EU Industrial Production (Thu 17:00), US Inflation Rate & Initial Jobless Claims (Thu 20:30), US political development including vote counting updates, and President Trump's legal contest of election result.

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 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 catalysts such as vaccine discovery and Omnibus Law, and we maintain our base-case 2020 JCI target of 5,300 (bullish case target: 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) 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 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 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 2021F P/E of 13.2x and 12.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 15.9x), XIIT (at 15.8x), and XIIML (at 15.8x), 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	28,323.40	6.87%	-0.75%
S&P 500	3,509.44	7.32%	8.63%
Nasdaq	11,895.23	9.01%	32.57%
FTSE 100	5,910.02	5.97%	-21.64%
DAX	12,480.02	7.99%	-5.80%
Nikkei 225	24,325.23	5.87%	2.83%
Hang Seng	25,712.97	6.66%	-8.79%
Shanghai	3,312.16	2.72%	8.59%
EIDO	20.44	11.82%	-20.34%

JCI Sector Indices	Last	1W	YTD
JAKMIND	1,014.39	5.88%	-17.12%
JAKFIN	1,201.98	5.47%	-11.27%
JAKBIND	800.48	5.01%	-18.16%
JAKINFR	848.28	4.91%	-25.43%
JCI	5,335.53	4.04%	-15.30%
JAKMINE	1,475.29	4.04%	-4.74%
JAKTRAD	657.74	2.31%	-14.56%
JAKCONS	1,843.59	2.13%	-10.19%
JAKPROP	330.79	-0.05%	-34.35%
JAKAGRI	1,198.68	-0.08%	-21.37%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	0 bps	-141 bps
UST 10Y Yield	0.82	-5 bps	-110 bps
Ind GB 10Y Yield	6.44	-17 bps	-62 bps
USDIDR	14,210	-415	344
CDS Indo 5Y	84.33	-15.12	22.09

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+869.82Bn	-61.81Tn
Government Bond Market (Rp)	-3.60Tn	-110.51Tn

Commodities	Last	1W	YTD
WTI	37.14	3.77%	-39.17%
Brent	39.45	5.31%	-40.23%
CPO (Malaysia)	3,190.00	5.94%	6.83%
Coal (New Castle)	61.65	5.93%	-8.94%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	871.64	5.58%	-16.72%
XIIT	IDX30	468.81	5.75%	-17.14%
XIJI	JII	581.60	4.62%	-17.51%
XISI	SMInfra18	269.16	4.26%	-21.34%
XISR	Sri Kehati	345.89	6.10%	-15.02%
XIHD	IDXHIDIV20	411.84	5.02%	-18.28%
XIPI	Pefindo I-Grade	150.25	6.12%	-16.25%
XIIML	MSCI Indo Large Cap	235.26	6.33%	-
XIID	IDX30	455.87	5.74%	-
XIIC	Consumer Related	956.67	5.29%	-15.59%
XIIF	Rate Sensitive	485.56	5.77%	-23.42%
XISC	BUMN Stocks	556.51	5.22%	-22.91%
XISB	Sovereign Bonds	432.22	1.64%	4.99%
<i>Conventional</i>				
RDMP	Equity	925.92	4.50%	-20.56%
RPCF	Balanced	2,626.10	4.09%	-11.86%
RDP2	Money Market	1,273.06	0.16%	4.09%

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	28.6	50.0	13.5	7.6	0.3	15.9	2.8	1.11
2 XIIT	28.2	53.6	11.3	6.4	0.4	15.8	2.9	1.19
3 XISC	20.3	37.5	23.7	14.6	3.9	12.7	3.6	1.33
4 XISR	27.2	63.9	4.2	4.4	0.3	16.2	2.7	1.16
5 XIIF	11.7	55.7	32.1	0.0	0.5	15.3	2.7	1.32
6 XISI	44.9	16.2	24.4	14.1	0.4	13.2	3.5	1.20
7 XIPI	20.0	61.0	16.8	1.7	0.5	16.8	2.4	1.20
8 XIIC	44.4	43.0	12.2	0.0	0.4	16.3	3.0	1.10
9 XIHD	32.9	50.6	6.7	9.6	0.2	15.6	3.1	1.18
10 XIJI	47.5	13.3	26.2	12.6	0.4	18.1	2.6	1.10
11 XIIML	23.1	69.3	4.2	3.1	0.3	15.8	3.2	1.17
12 XIID	28.2	53.5	11.4	6.4	0.4	15.8	2.9	1.19
Index								
IDX80	31.9	38.8	21.1	8.2		14.9	2.9	
JCI	32.4	37.2	22.5	7.8		15.0	2.0	

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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