

Stimulus hopes outweighed by rising political tension, recovery concerns

Key global stock markets retreated from record highs reached in the prior week despite President-elect Biden's proposal for a new US\$1.9Tn relief package due to rising concerns over recovery prospects given new lockdowns, surging Covid cases, new coronavirus strain amid slow vaccine distribution. President Trump's impeachment also raises question on how quickly the new administration could move on the plan and how Republican opposition could slow or reduce the size of relief package. European countries have extended lockdowns amid emerging new virus strain while small clusters of coronavirus infections reappear in China. Meanwhile, economic data was mixed as EU's November industrial production growth of -0.6% YoY was above consensus of -3.3% YoY, while in US, weekly jobless claims were higher than expected at 965k (vs. 795k consensus) while its December retail sales fell 0.7% MoM (ex-Autos: -1.4% MoM), also weaker than expected. Fed Chair Powell affirmed there is no plan to raise rates until inflation remain above 2% for some time.

In Indonesia, JCI extended gain and rose 1.85% this week, supported by foreign inflow of Rp4.85Tn while the bond market experienced Rp5.33Tn outflow, which pushed up yield to 6.21%. Cyclical sectors (eg. mining, construction, property, banking, trading) were market leaders while laggards include defensive sectors such as telecom, infrastructure, consumer but also palm oil stocks, due to 5.6% decline in CPO benchmark price.

The Week Ahead – China GDP, US President Inauguration, BI Rate Decision

The key economic calendar to watch out next week includes China GDP Growth, Industrial Production and Retail Sales (Mon 09:00), Indonesia 2W Sales (Wed 17:00), BI Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 20:30), Market Manufacturing & Services PMIs for EU (Fri 16:00) and US (Fri 21:45), US Existing Home Sales (Fri 22:00). Meanwhile, US Presidential Inauguration will be held on Wednesday amid concerns of more protests by Trump supporters nationwide.

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 expect JCI to continue its recovery, driven by catalysts such as vaccine distribution, Omnibus Law and Indonesia's improving macro outlook, although its valuation has priced-in earnings recovery prospects. Although JCI is getting close to our 2021 JCI target of 6,600 (our bullish case: 7,000), we will still maintain our base case target of 6,600 for now, pending the release of Q1 2021 financial results at end of April and May.

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 XIIML (MSCI Indonesia Large Cap), whose constituents of 11 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 riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 16.4x and 16.3x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.1x), XIIT (at 18.1x), and XIIML (at 17.1x), 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	YTD
DJIA	30,814.26	-0.91%	0.68%
S&P 500	3,768.25	-1.48%	0.32%
Nasdaq	12,998.50	-1.54%	0.86%
FTSE 100	6,735.71	-2.00%	4.26%
DAX	13,787.73	-1.86%	0.50%
Nikkei 225	28,519.18	1.35%	3.92%
Hang Seng	28,573.86	2.50%	4.93%
Shanghai	3,566.38	-0.10%	2.69%
EIDO	24.49	-0.12%	4.57%

JCI Sector Indices	Last	1W	YTD
JAKMINE	2,209.43	4.15%	15.34%
JAKFIN	1,439.45	2.95%	7.97%
JAKPROP	414.81	2.71%	4.51%
JAKTRAD	812.82	2.37%	6.06%
JCI	6,373.41	1.85%	6.60%
JAKMIND	1,157.29	1.73%	7.05%
JAKBIND	1,004.64	1.59%	9.08%
JAKINFR	1,056.76	0.59%	5.57%
JAKCONS	1,835.56	-0.77%	0.19%
JAKAGRI	1,508.23	-4.72%	0.69%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	0 bps	2 bps
UST 10Y Yield	1.09	-3 bps	17 bps
Ind GB 10Y Yield	6.21	6 bps	27 bps
USDIDR	14,068	48	-37
CDS Indo 5Y	74.42	6.00	6.91

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.85 Tn	+8.26 Tn
Government Bond Market (Rp)	-5.33 Tn	+2.60 Tn

Commodities	Last	1W	YTD
WTI	52.36	0.23%	7.91%
Brent	55.10	-1.59%	6.37%
CPO (Malaysia)	3,616.00	-5.59%	-7.07%
Coal (New Castle)	87.40	3.68%	7.37%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	1,030.30	0.96%	5.71%
XIIT	IDX30	547.34	0.84%	5.58%
XIJI	JII	674.51	0.02%	5.42%
XISI	SMInfra18	348.00	0.82%	4.83%
XISR	Sri Kehati	396.46	0.39%	4.53%
XIHD	IDXHIDIV20	479.06	0.59%	4.28%
XIPI	Pefindo I-Grade	185.24	1.08%	7.40%
XIIML	MSCI Indo Large Cap	265.04	0.09%	4.41%
XIID	IDX30	531.54	0.83%	5.55%
XIIC	Consumer Related	1,063.99	-0.25%	2.87%
XIIF	Rate Sensitive	634.87	2.38%	7.86%
XISC	BUMN Stocks	888.77	6.90%	16.42%
XISB	Sovereign Bonds	442.96	-0.36%	-0.71%
<i>Conventional</i>				
RDMP	Equity	1,105.75	0.96%	4.59%
RPCF	Balanced	3,045.64	0.65%	2.01%
RDP2U	Money Market	1,286.93	0.09%	0.19%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Func	Fund Characteristics (% of Portfolio)					P/E (x) 2021F	Dividend Yield 2021F	Beta to JCI
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash			
1	RLQ45	26.9	49.5	14.1	9.4	0.08	18.1	2.5	1.12
2	XIIT	26.7	53.8	11.2	8.3	0.08	18.1	2.6	1.18
3	XISC	18.8	31.8	29.9	19.3	0.16	16.3	2.9	1.22
4	XISR	25.3	63.5	5.6	5.2	0.41	18.5	2.5	1.17
5	XIIF	11.0	47.7	40.7	0.0	0.52	18.1	2.4	1.22
6	XISI	41.4	16.2	26.9	15.1	0.39	16.4	2.9	1.13
7	XIPI	17.6	58.8	17.2	6.1	0.29	20.4	2.0	1.20
8	XIIC	42.1	44.2	12.5	0.0	1.20	18.3	2.8	1.10
9	XIHD	30.9	51.0	6.5	11.4	0.26	17.6	2.9	1.17
10	XIJI	47.9	1.3	32.5	18.0	0.25	21.9	1.9	1.09
11	XIML	21.0	71.3	3.9	3.5	0.32	17.7	2.7	1.20
12	XIID	26.5	53.8	11.2	8.3	0.23	18.1	2.6	1.22
Index									
	IDX80	29.3	41.0	18.3	11.4		17.0	2.3	
	JCI	28.9	39.1	22.2	9.8		17.1	1.7	

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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