

Vaccine-driven rally clouded by US stimulus and Brexit talks uncertainty

Optimism over FDA's approval of Pfizer vaccine this week drove global markets to new highs before investor sentiment shifted to the grim reality of stalling US stimulus talks, record high Covid infections & hospitalisations, and rising jobless claims, while rising likelihood of a no-deal Brexit also soured investor mood. In addition, tension between US and China is also on the rise following US sale of military equipment to Taiwan. The prospect for new fiscal stimulus deal remains uncertain as Republicans and Democrats disagreed on the terms of a \$908Bn package announced by a bipartisan group of lawmakers, at a time when weekly jobless claims surged from 716k to 853k, reaching its highest level in nearly three months. Meanwhile, the UK and EU have agreed to continue post-Brexit trade talks beyond Sunday's deadline but both sides are still very far apart on key issues. Stimulus and Brexit worries lowered bond yields while commodities such as oil, coal and CPO still maintain their upward price momentum.

In Indonesia, JCI closed 2.20% higher on news of Sinovac vaccine arrival which was maintained throughout the week despite foreign net selling of Rp515Bn, which mainly affected the tobacco sector due to MoF announcement of 12.5% cigarette excise tax rise for 2021, after previous news reports of a cancellation of a steeper 28% excise tax hike plan. Cyclical sectors such as basic industries, mining, retail trade, and property continued lead the market this week, while defensive consumer and telecom sectors were laggards, particularly tobacco stocks which fall sharply on the back of foreign selling.

The Week Ahead – BI Rate Decision, EU & US Market PMIs, Fed Meeting

The key economic calendar to watch out next week are EU Industrial Production (Mon 17:00), Indonesia Trade Balance (Tue 11:00), EU Market PMIs (Wed 16:00), US Retail Sales (Wed 20:30), US Market PMIs (Wed 21:45), Fed Interest Rate Decision and FOMC Economic Projections (Thu 02:00), BI Interest Rate Decision (Thu 14:30), and US Initial Jobless Claims (Thu 20:30). Consensus expectation is for BI to keep policy rate steady at 3.75%.

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 BBCA, 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 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 17.2x), and XIIML (at 17.2x), 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. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	30,046.37	-0.57%	5.28%
S&P 500	3,663.46	-0.96%	13.39%
Nasdaq	12,377.87	-0.69%	37.95%
FTSE 100	6,546.75	-0.05%	-13.20%
DAX	13,114.30	-1.39%	-1.02%
Nikkei 225	26,652.52	-0.37%	12.66%
Hang Seng	26,505.87	-1.23%	-5.97%
Shanghai	3,347.19	-2.83%	9.74%
EIDO	23.14	1.76%	-9.82%

JCI Sector Indices	Last	1W	YTD
JAKBIND	943.41	4.21%	-3.55%
JAKMINE	1,830.66	4.17%	18.21%
JAKTRAD	734.78	4.15%	-4.55%
JAKPROP	395.41	3.72%	-21.53%
JAKFIN	1,341.60	2.51%	-0.96%
JCI	5,938.33	2.20%	-5.73%
JAKAGRI	1,378.64	2.19%	-9.57%
JAKMIND	1,031.05	1.34%	-15.75%
JAKINFR	974.54	1.20%	-14.33%
JAKCONS	1,850.19	-1.36%	-9.86%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.12	-3 bps	-145 bps
UST 10Y Yield	0.90	-8 bps	-102 bps
Ind GB 10Y Yield	6.18	-1 bps	-88 bps
USDIDR	14,070	-15	204
CDS Indo 5Y	69.68	1.66	7.44

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-515.14 Bn	-60.83 Tn
Government Bond Market (Rp)	-604 Bn	-92.77 Tn

Commodities	Last	1W	YTD
WTI	46.57	0.67%	-23.73%
Brent	49.97	1.46%	-24.29%
CPO (Malaysia)	3,554.00	0.06%	19.02%
Coal (New Castle)	77.70	4.65%	14.77%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	970.38	1.57%	-7.29%
XIIT	IDX30	519.83	1.49%	-8.12%
XIJI	JII	637.04	1.83%	-9.65%
XISI	SMInfra18	319.64	0.98%	-6.58%
XISR	Sri Kehati	380.74	1.79%	-6.46%
XIHD	IDXHIDIV20	467.32	1.34%	-7.27%
XIPI	Pefindo I-Grade	174.00	2.75%	-3.01%
XIIML	MSCI Indo Large Cap	257.48	1.46%	-
XIID	IDX30	505.13	1.48%	-
XIIC	Consumer Related	1,024.69	0.62%	-9.59%
XIIF	Rate Sensitive	575.25	1.35%	-9.27%
XISC	BUMN Stocks	716.52	2.88%	-0.75%
XISB	Sovereign Bonds	443.14	0.80%	7.65%
<i>Conventional</i>				
RDMP	Equity	1,043.75	1.00%	-10.46%
RPCF	Balanced	2,936.66	1.31%	-1.44%
RDPU2	Money Market	1,280.99	0.11%	4.74%

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	27.6	50.1	13.5	8.4	0.34	17.3	2.5	1.12
2 XIIT	27.3	53.9	10.9	7.5	0.41	17.2	2.7	1.18
3 XISC	20.2	34.2	28.0	17.4	0.25	15.1	3.0	1.22
4 XISR	26.0	63.2	5.3	4.9	0.56	17.8	2.5	1.17
5 XIIF	11.4	53.2	34.8	0.0	0.52	17.1	2.4	1.22
6 XISI	43.5	16.2	24.6	15.4	0.34	15.6	2.9	1.13
7 XIPI	19.3	60.6	17.7	2.0	0.33	19.1	2.1	1.20
8 XIIC	42.5	43.9	12.0	0.0	1.57	17.5	2.8	1.10
9 XIHD	31.3	50.1	6.5	11.7	0.38	17.0	2.8	1.17
10 XIJI	50.2	1.5	32.3	15.7	0.22	21.3	2.2	1.09
11 XIIML	21.6	70.8	3.8	3.7	0.19	17.2	2.7	1.20
12 XIID	27.3	53.9	11.0	7.5	0.36	17.2	2.7	1.22
Index								
IDX80	31.9	38.8	21.1	8.2		15.6	2.9	
JCI	32.4	37.2	22.5	7.8		15.3	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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