

Stocks pushed higher on stimulus hopes, dovish Fed, and strong earnings

Global equities rose further to new record highs this week due to optimism on US fiscal stimulus, Fed's dovish stance, strong earnings, easing new virus cases and accelerating vaccine rollouts. US Treasury Secretary Janet Yellen predicted that US could be back to full employment next year if stimulus is robust enough while Fed Chair Powell reiterated monetary policy would remain stimulative for a long time. This dovish stance is supported by this week's release of a low core inflation rate of 1.4% YoY (previous: 1.6%). US markets also benefited from a strong earnings season. Of the 372 companies in S&P500 that have reported earnings to date, 82% beat expectations, according to Refinitiv, with earnings growth for the stock index now expected at 3.4% for Q4 2020 (7.3% if excluding energy sector) – this is an exceptionally quick earnings recovery compared with past US recessions. Meanwhile, easing new virus cases globally and accelerating vaccine rollouts contributed to the optimism. According to Bloomberg's vaccine tracker, 172m doses have been administered in 77 countries globally, with the US alone distributing 52m doses or 1.64m doses a day in the last week. At this rate, it will take 8 months in the US to cover 75% of its population, which would enable a return to normalcy. Recovery expectations also led to the strength in commodity prices, which have been trending up since the last quarter of 2020. Rising commodity prices had been positive for emerging markets in the past.

In Indonesia, JCI gained 1.15% despite sustained foreign outflows of Rp537Bn vs. outflow of Rp2.57Tn in bond market. Cyclical stocks in mining, property, and construction sectors led the market higher while defensive stocks in consumer, telecommunication, healthcare and media sectors were the laggards.

The Week Ahead – Indonesia Trade Balance, BI Meeting, Automotive Sales

The key economic calendar to watch out for next week include Indonesia Trade Balance (Mon 11:00), EU Industrial Production (Mon 17:00), US Retail Sales and Industrial Production (Wed 20:30/21:15), FOMC Minutes (Thu 02:00), BI Interest Rate Decision (Thu 14:30), Indonesia Car and Motorcycle Sales (Thu 17:00), US Jobless Claims & Housing Starts (Thu 20:30), Markit Manufacturing & Services PMIs for EU (Fri 16:00) and the US (Fri 21:45).

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 with its uptrend momentum, driven by catalysts such as vaccine distribution, Omnibus Law, commodity price recovery, although we believe its valuation has priced-in earnings recovery prospects. We keep our 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending the release of Q1 2021 corporate earnings results at end of April and May.

Recommendation

We have been recommending investors to stay defensive since 2019, before the pandemic, with our broad-based ETFs RLQ45 and XIIT to minimize volatility and our ESG ETF XISR (Sri Kehati) and 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 15.9x and 15.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.0x), XIIT (at 17.3x), and XIIML (at 17.3x), 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	31,458.40	1.00%	2.78%
S&P 500	3,934.83	1.23%	4.76%
Nasdaq	14,095.47	1.73%	9.37%
FTSE 100	6,589.79	1.55%	2.00%
DAX	14,049.89	-0.05%	2.41%
Nikkei 225	29,520.07	2.57%	7.56%
Hang Seng	30,173.57	3.02%	10.81%
Shanghai	3,655.09	4.54%	5.24%
EIDO	23.91	0.21%	2.09%

JCI Sector Indices	Last	1W	YTD
JAKMINE	2,051.51	3.14%	7.10%
JAKPROP	388.95	2.69%	-2.00%
JAKFIN	1,425.67	2.46%	6.94%
JAKTRAD	846.45	1.30%	10.45%
JCI	6,222.52	1.15%	4.07%
JAKAGRI	1,440.14	0.92%	-3.86%
JAKBIND	1,003.19	0.47%	8.93%
JAKCONS	1,754.92	-0.55%	-4.21%
JAKINFR	1,009.84	-0.84%	0.88%
JAKMIND	1,050.45	-2.81%	-2.83%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.11	1 bps	-1 bps
UST 10Y Yield	1.21	5 bps	30 bps
Ind GB 10Y Yield	6.24	8 bps	36 bps
USDIDR	14,011	-19	-39
CDS Indo 5Y	67.40	-1.23	-0.11

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-536.76Bn	+7.39 Tn
Government Bond Market (Rp)	-2.57 Tn	+20.87 Tn

Commodities	Last	1W	YTD
WTI	59.47	4.61%	22.57%
Brent	62.43	5.21%	20.52%
CPO (Malaysia)	3,629.00	7.53%	4.49%
Coal (New Castle)	87.45	0.92%	8.63%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	993.31	0.01%	1.92%
XIIT	IDX30	522.37	-0.16%	0.76%
XIJI	JII	648.79	-0.30%	1.40%
XISI	SMInfra18	329.61	-0.56%	-0.71%
XISR	Sri Kehati	383.00	-0.19%	0.98%
XIHD	IDXHIDIV20	457.17	-0.19%	-0.48%
XIPI	Pefindo I-Grade	181.34	0.51%	5.14%
XIIML	MSCI Indo Large Cap	255.94	-0.10%	0.83%
XIID	IDX30	507.16	-0.17%	0.71%
XIIC	Consumer Related	1,012.55	-1.09%	-2.11%
XIIF	Rate Sensitive	590.15	0.63%	0.26%
XISC	BUMN Stocks	798.43	1.25%	4.59%
XISB	Sovereign Bonds	441.10	-0.32%	-1.13%
<i>Conventional</i>				
RDMP	Equity	1,032.66	-0.84%	-2.32%
RPCF	Balanced	2,929.19	-0.32%	-1.89%
RDPU2	Money Market	1,291.47	0.08%	0.54%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x) 2021F	Dividend Yield 2021F	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash			
1 RLQ45	25.7	50.1	15.3	8.9	0.08	18.0	2.5	1.12
2 XIIT	27.4	53.0	10.9	8.5	0.12	17.3	2.7	1.18
3 XISC	18.4	34.2	27.9	19.3	0.12	15.6	3.1	1.22
4 XISR	25.0	64.5	5.3	4.9	0.31	17.9	2.5	1.17
5 XIIF	10.8	49.7	39.2	0.0	0.30	17.3	2.5	1.22
6 XISI	42.6	17.0	25.6	14.5	0.27	15.9	3.0	1.13
7 XIPI	16.6	59.7	17.6	5.9	0.19	19.7	2.1	1.20
8 XIIC	41.8	44.9	12.2	0.0	1.01	17.8	2.9	1.10
9 XIHD	29.7	54.2	4.6	11.0	0.37	17.3	2.9	1.17
10 XIJI	47.7	1.3	33.6	17.2	0.13	20.6	2.0	1.09
11 XIIML	20.6	72.4	3.7	3.2	0.13	17.3	2.8	1.20
12 XIID	27.3	53.0	10.9	8.5	0.24	17.4	2.7	1.22
Index								
IDX80	29.4	41.3	18.3	11.0		16.5	2.4	
JCI	29.8	39.9	21.7	8.6		15.9	1.8	

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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