

**Vaccine hopes, economic data lifted markets amidst US-China tensions**

Global equity indices nearly returned to post-pandemic highs achieved in early June, before virus resurgence worries started emerging, as positive news from coronavirus vaccine trials outweigh a resurgence of virus infections that has led to economy reopening rollbacks across the US. Moderna announced its novel mRNA vaccine had produced high levels of antibodies in all test participants while Oxford University reported its vaccine candidate had produced antibodies as well as 'killer' T-cells that may offer prolonged immunity. Dr. Anthony Fauci, a US top infectious disease official, said he believes the nation will meet its goal of having a coronavirus vaccine by year-end. Meanwhile, economic data were positive with US industrial production and retail sales in June grew by 5.4% and 7.5% MoM, respectively, ahead of consensus (of 4.3% and 5.0%, respectively), while China 2Q GDP grew 3.2% YoY, also ahead of consensus of 2.5%. However, rising US-China tensions had led to corrections in China and HK stock markets, after strong performances in recent weeks.

In Indonesia, JCI gained 0.96%, despite sustained foreign net outflow (Rp1.2Tn), although the currency weakened, despite a modest return of foreign inflow into bond market (Rp2.8Tn), after BI cut policy rate further by 25bps to 4.0%. Auto, consumer, basic industries, and commodity sectors were market drivers while banks, telecom and property & construction sectors saw corrections this week.

**The Week Ahead – Indonesia 2W Sales, Markit PMI for EU, UK and US**

The key economic calendar to watch out for next week are Indonesia 2W Sales (Mon 10:30), US Existing Home Sales (Wed 21:00), US Initial Jobless Claims (Thu 19:30), EU Consumer Confidence (Thu 21:00), UK Retail Sales (Fri 13:00), Markit Manufacturing and Services PMI for France, Germany, EU, UK (Fri 14:15-15:30), and also for US (Fri 20:45), US New Home Sales (Fri 21:00).

**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. Although Indonesia's coronavirus outbreak is still in early stage, we believe the risk is already priced in as JCI trailing P/E valuation has fallen to around its 20-yr average, while global markets valuation have returned to near pre-pandemic highs at 1SD above their long-term averages. We view Indonesia market valuation is attractive, regardless of GDP and earnings growth in 2020. Given a high correlation factor of 0.80 between JCI and S&P500 indices in 2020 (vs. 0.19 in 2018-2019), we believe JCI will continue to recover, driven by global catalysts such as vaccine discovery, whose prospect may become clearer as we get nearer to end of the year, given large number (>150) of vaccine projects in development globally. We believe our 5,300 JCI target is conservative.

**Recommendation**

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our satellite ETFs XISR (Sri Kehati) and XIPI (Pefindo I-Grade), both of which have overweight positions in BBCA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a potential market rebound, our pick is our ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among the most impacted by foreign selling and thus may benefit from a 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 more risky at current market conditions. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 16.1x and 15.5x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.8x), XIIT (at 18.7x), and XIIML (at 19.3x), 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	26,671.95	2.29%	-6.54%
S&P 500	3,224.73	1.25%	-0.19%
Nasdaq	10,503.19	-1.08%	17.06%
FTSE 100	6,290.30	3.20%	-16.60%
DAX	12,919.61	2.26%	-2.49%
Nikkei 225	22,696.42	1.82%	-4.06%
Hang Seng	25,089.17	-2.48%	-11.00%
Shanghai	3,214.13	-5.00%	5.38%
EIDO	18.84	-0.89%	-26.58%

JCI Sector Indices	Last	1W	YTD
JAKMIND	924.65	5.99%	-24.45%
JAKAGRI	1,113.72	5.69%	-26.94%
JAKCONS	1,864.24	3.63%	-9.18%
JAKBIND	785.40	3.26%	-19.70%
JAKMINE	1,311.68	2.11%	-15.30%
<b>JCI</b>	<b>5,079.59</b>	<b>0.96%</b>	<b>-19.37%</b>
JAKTRAD	607.78	0.75%	-21.05%
JAKINFR	891.09	-0.31%	-21.67%
JAKFIN	1,100.01	-1.10%	-18.80%
JAKPROP	309.27	-2.15%	-38.62%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.14	-1 bps	-143 bps
UST 10Y Yield	0.62	-5 bps	-129 bps
Ind GB 10Y Yield	7.06	-1 bps	0 bps
USDIDR	14,620	185	754
CDS Indo 5Y	171.81	46.09	109.57

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.18 Tn	-34.2 Tn
Government Bond Market (Rp)	+2.79 Tn	-124.2 Tn

Commodities	Last	1W	YTD
WTI	40.59	0.10%	-33.52%
Brent	43.14	-0.23%	-34.64%
CPO (Malaysia)	2,580.00	8.22%	-13.60%
Coal (New Castle)	52.20	-0.38%	-22.90%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	841.80	1.02%	-19.57%
XIIT	IDX30	454.96	1.13%	-19.59%
XIJI	JII	564.92	2.22%	-19.88%
XISI	SMInfra18	264.33	0.67%	-22.75%
XISR	Sri Kehati	327.19	0.39%	-19.61%
XIHD	IDXHIDIV20	398.36	1.21%	-20.96%
XIPI	Pefindo I-Grade	140.44	0.01%	-21.72%
XIIML	MSCI Indo Large Cap	226.02	0.62%	-
XIID	IDX30	435.54	1.10%	-
XIIC	Consumer Related	918.99	1.15%	-18.92%
XIIF	Rate Sensitive	460.03	0.51%	-27.44%
XISC	BUMN Stocks	532.91	0.35%	-26.18%
XISB	Sovereign Bonds	412.15	-0.19%	0.12%
<i>Conventional</i>				
RDMP	Equity	906.39	0.99%	-22.24%
RPCF	Balanced	2,529.63	0.47%	-15.10%
RDP2U	Money Market	1,253.86	0.07%	2.52%

**Summary of Investment Characteristics & Valuation of ETF Funds Portfolios**

	Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2020F	2019
1	<b>RLQ45</b>	<b>30.4</b>	<b>47.3</b>	<b>15.8</b>	<b>5.6</b>	<b>0.8</b>	<b>18.8</b>	<b>3.4</b>
2	XIIT	27.9	<b>50.6</b>	14.4	6.0	1.1	18.7	3.4
3	<b>XISC</b>	<b>21.3</b>	<b>34.6</b>	<b>26.2</b>	<b>12.9</b>	<b>5.1</b>	<b>15.5</b>	<b>4.7</b>
4	XISR	29.5	<b>61.8</b>	<b>4.0</b>	<b>3.9</b>	0.7	19.3	3.2
5	<b>XIIF</b>	<b>16.0</b>	<b>51.6</b>	<b>30.0</b>	<b>0.0</b>	<b>2.4</b>	<b>19.7</b>	<b>3.1</b>
6	XISI	<b>49.1</b>	<b>14.4</b>	23.2	12.5	0.8	16.1	4.3
7	<b>XIPI</b>	<b>21.7</b>	<b>59.8</b>	<b>16.5</b>	<b>1.2</b>	<b>0.8</b>	<b>21.5</b>	<b>2.7</b>
8	XIIC	<b>47.5</b>	37.0	<b>10.3</b>	<b>0.0</b>	5.2	19.5	3.3
9	<b>XIHD</b>	<b>36.1</b>	<b>46.7</b>	<b>6.8</b>	<b>9.6</b>	<b>0.8</b>	<b>17.9</b>	<b>3.8</b>
10	XIJI	<b>53.2</b>	<b>12.8</b>	23.1	10.4	0.4	18.9	3.4
11	<b>XIML</b>	<b>25.8</b>	<b>66.3</b>	<b>4.2</b>	<b>2.9</b>	<b>0.8</b>	<b>19.3</b>	<b>3.5</b>
12	XIID	<b>28.2</b>	<b>50.1</b>	<b>14.8</b>	<b>6.0</b>	1.0	18.7	3.4
<b>Index</b>								
	<b>IDX80</b>	<b>31.9</b>	<b>38.8</b>	<b>21.1</b>	<b>8.2</b>	<b>0.0</b>	<b>17.1</b>	<b>2.7</b>
	JCI	32.7	37.6	22.5	7.1	0.0	17.7	2.4

**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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