

Uncertainties on US stimulus and Europe's recovery as Covid cases surged

Key global markets corrected as investors reacted to uncertainty in US stimulus deal, earnings results, and technology sector in the wake of the government's antitrust suit against Google. While timing of a stimulus deal remains uncertain, expectations of a large relief package if Democrats won both the White House and the Senate pushed Treasury yields higher. US economic data were positive with a stronger-than-expected existing home sales in September (+9.4% MoM), a decline in weekly jobless claims, and still expanding Manufacturing & Services PMIs. Meanwhile, European stock markets fell on signs of faltering economic recovery as several countries announced new mobility restrictions/lockdowns to curb rising Covid cases and Markit Services PMI in Eurozone declined to 46.2 in October (September: 48.0) despite its still expanding Manufacturing PMI (54.4). With US election on 3rd November quickly approaching, stock markets appear to be warming up to a likelihood of a Joe Biden landslide win, which we believe would be positive for emerging equities, including Indonesia.

In Indonesia, JCI closed 0.17% higher, despite sustained foreign equity outflows (net sell of Rp962.5 Bn), while the bond market recorded inflows of Rp5.97 Tn, which lowered 10-yr yields to 6.63% (-11bps) and strengthened the IDR/USD exchange rate. Key market drivers include auto, basic industries, property, and mining sectors while telecommunication and tobacco stocks were laggards.

The Week Ahead – US & EU GDP Growth, US Personal Income & Spending

The key economic calendar to watch out next week are Indonesia 2-Wheeler Sales (Mon 10:30), US New Home Sales (Mon 21:00), US Durable Goods Order (Tue 19:30), US Jobless Claims (Thu 19:30), US GDP Growth Rate (Thu 19:30), ECB Interest Rate Decision (Thu 19:45), EU GDP Growth Rate, Inflation Rate, and Unemployment Rate (Fri 17:00), US Personal Income and Spending (Fri 19:30), and China NBS Manufacturing & Non-Manufacturing PMI (Sat 08:00).

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. We believe Indonesia's coronavirus fallout is already fully priced in as JCI P/E valuation has fallen to just above 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 global catalysts such as vaccine discovery, and maintain our base-case 2020 JCI target of 5,300 (bullish case target is 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), which have an overweight position in BBKA, which is considered as defensive stock at times of market uncertainty. Please note 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 a 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 2020 P/E of 17.2x and 16.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 19.1x), XIIT (at 19.0x), and XIIML (at 19.0x), 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	28,335.57	-0.95%	-0.71%
S&P 500	3,465.39	-0.53%	7.26%
Nasdaq	11,548.28	-1.06%	28.71%
FTSE 100	5,860.28	-1.00%	-22.30%
DAX	12,645.75	-2.04%	-4.55%
Nikkei 225	23,516.59	0.45%	-0.59%
Hang Seng	24,918.78	2.18%	-11.60%
Shanghai	3,278.00	-1.75%	7.47%
EIDO	18.90	2.94%	-26.34%

JCI Sector Indices	Last	1W	YTD
JAKMIND	951.69	6.89%	-22.24%
JAKBIND	765.63	1.86%	-21.72%
JAKPROP	323.76	1.58%	-35.75%
JAKMINE	1,435.50	0.95%	-7.30%
JAKTRAD	636.51	0.32%	-17.32%
JCI	5,112.19	0.17%	-18.85%
JAKFIN	1,127.10	0.15%	-16.80%
JAKAGRI	1,162.16	-1.15%	-23.77%
JAKCONS	1,825.84	-1.77%	-11.05%
JAKINFR	812.76	-2.24%	-28.55%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	1 bps	-141 bps
UST 10Y Yield	0.84	10 bps	-108 bps
Ind GB 10Y Yield	6.63	-11 bps	-43 bps
USDIDR	14,660	-38	794
CDS Indo 5Y	93.99	-0.82	31.75

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-962.53 Bn	-62.83 Tn
Government Bond Market (Rp)	+5.97 Tn	-109.48 Tn

Commodities	Last	1W	YTD
WTI	39.85	-2.52%	-34.74%
Brent	41.77	-2.70%	-36.71%
CPO (Malaysia)	2,955.00	2.96%	-1.04%
Coal (New Castle)	58.00	3.02%	-14.33%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	825.08	0.80%	-21.17%
XIIT	IDX30	442.98	0.68%	-21.70%
XIJI	JII	561.47	1.14%	-20.37%
XISI	SMInfra18	259.22	-0.11%	-24.24%
XISR	Sri Kehati	325.18	0.69%	-20.11%
XIHD	IDXHIDIV20	391.15	-0.35%	-22.39%
XIPI	Pefindo I-Grade	140.69	-0.03%	-21.58%
XIIML	MSCI Indo Large Cap	220.42	0.24%	-
XIID	IDX30	430.85	0.66%	-
XIIC	Consumer Related	908.95	0.97%	-19.80%
XIIF	Rate Sensitive	458.77	2.34%	-27.64%
XISC	BUMN Stocks	529.90	1.72%	-26.60%
XISB	Sovereign Bonds	424.91	0.64%	3.22%
<i>Conventional</i>				
RDMP	Equity	888.58	0.49%	-23.77%
RPCF	Balanced	2,518.38	0.38%	-15.48%
RDPU2	Money Market	1,270.14	0.12%	3.85%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Fund	Fund Characteristics (% of Portfolio)					P/E (x) 2020F	Dividend Yield 2019
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash		
1	RLQ45	29.8	48.4	13.5	7.9	0.5	19.1	3.5
2	XIIT	28.9	52.5	11.4	6.9	0.4	19.0	3.5
3	XISC	20.1	37.0	23.8	14.9	4.1	16.7	4.7
4	XISR	28.0	62.8	4.1	4.8	0.2	20.1	3.2
5	XIIF	11.6	55.2	32.6	0.0	0.6	19.1	3.2
6	XISI	45.2	15.7	24.0	14.7	0.5	17.2	4.3
7	XIPI	20.2	60.3	17.2	1.8	0.6	21.6	2.8
8	XIIC	45.6	42.0	11.9	0.0	0.5	19.5	3.4
9	XIHD	33.5	49.3	6.8	10.1	0.3	18.8	3.9
10	XIJI	47.6	12.8	26.0	13.1	0.5	20.7	3.1
11	XIML	23.5	68.2	4.2	3.5	0.6	19.0	3.7
12	XIID	28.9	52.4	11.4	6.9	0.4	19.0	3.5
Index								
	IDX80	31.9	38.8	21.1	8.2		17.7	3.2
	JCI	32.4	37.2	22.5	7.8		20.0	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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