

Virus worries, election uncertainty, stimulus hopes are key market drivers

Global stock indices rebounded, after declining for four weeks, amid resurgence of Covid cases globally, US election uncertainty, and hopes for new coronavirus spending bill. House Speaker Nancy Pelosi promised a relief bill to help airline industry, after the House passed a \$2.2Tn package without reaching agreement with Republicans, but with the two plans edging closer a compromise may still be within reach. Politics also came into focus following Presidential Debate and President Trump's positive Covid case, which adds a new uncertainty in the run-up to presidential election. However, the prospect of a Joe Biden landslide win could lower risk of an inconclusive/contested US election outcome. Meanwhile, US job data were mixed with above-expected job growth in private businesses, but lower growth in non-farm payrolls, as unemployment rate eased to 7.9% (from 8.4%). Meanwhile, oil prices continued falling following a surprise pledge by China's President Xi Jinping to pursue carbon-neutrality by 2060 during the UN General Assembly meeting.

In Indonesia, JCI corrected further by 0.39% as foreign outflows were sustained in equity and bond markets, with big cap stocks in banking, telecom, auto and consumer sectors impacted the most. The country's manufacturing PMI fell to 47.2 in September (August: 50.8) amid reimposition of mobility restrictions in Jakarta to lower the rate of new coronavirus infections.

The Week Ahead – Fed Chair Powell Speech & FOMC Minutes

The key economic calendar to watch out in the week ahead are EU Retail Sales (Mon 16:00), Indonesia Consumer Confidence Index (Tue 10:00), ECB President Lagarde Speech (Tue 15:35), Fed Chair Powell Speech (Tue 21:40), Fed FOMC Minutes (Thu 01:00), Indonesia Retail Sales (Thu 10:00), US Initial Jobless Claims (Thu 19:30), and China Caixin Services PMI (Fri 08:45).

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 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. However, given reimposition of mobility restrictions in Jakarta, which will have negative impacts on economic growth and equity earnings, we return to 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 pandemic, continuing its strong rise since 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 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 2020F P/E of 16.4x and 15.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.0x), XIIT (at 18.1x), and XIIML (at 18.1x), 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	27,682.81	1.87%	-3.00%
S&P 500	3,348.44	1.52%	3.64%
Nasdaq	11,075.02	1.48%	23.43%
FTSE 100	5,902.12	1.02%	-21.75%
DAX	12,689.04	1.76%	-4.23%
Nikkei 225	23,029.90	-0.75%	-2.65%
Hang Seng	23,459.05	0.96%	-16.78%
Shanghai	3,218.05	-0.04%	5.51%
EIDO	17.41	-0.06%	-32.15%

JCI Sector Indices	Last	1W	YTD
JAKBIND	727.91	3.06%	-25.58%
JAKAGRI	1,153.18	1.37%	-24.36%
JAKMINE	1,344.25	1.06%	-13.20%
JAKTRAD	628.69	0.84%	-18.33%
JAKINFR	806.46	0.36%	-29.11%
JAKPROP	341.60	-0.21%	-32.21%
JCI	4,926.73	-0.39%	-21.79%
JAKCONS	1,824.39	-0.90%	-11.12%
JAKFIN	1,056.14	-1.50%	-22.04%
JAKMIND	839.41	-3.68%	-31.41%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.13	0 bps	-144 bps
UST 10Y Yield	0.70	4 bps	-122 bps
Ind GB 10Y Yield	6.92	1 bps	-14 bps
USDIDR	14,865	-8	999
CDS Indo 5Y	113.37	-5.80	51.13

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.74 Tn	-60.11 Tn
Government Bond Market (Rp)	-3.93 Tn	-127.10 Tn

Commodities	Last	1W	YTD
WTI	37.05	-7.95%	-39.32%
Brent	39.27	-6.32%	-40.50%
CPO (Malaysia)	2,717.00	-3.72%	-9.01%
Coal (New Castle)	57.55	9.00%	-14.99%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	784.64	-1.27%	-25.03%
XIIT	IDX30	423.12	-1.58%	-25.21%
XIJI	JII	538.34	0.46%	-23.65%
XISI	SMInfra18	250.28	-0.16%	-26.85%
XISR	Sri Kehati	310.63	-1.51%	-23.68%
XIHD	IDXHIDIV20	376.41	-1.84%	-25.31%
XIPI	Pefindo I-Grade	132.28	-0.41%	-26.27%
XIIML	MSCI Indo Large Cap	211.18	-2.23%	-
XIID	IDX30	411.70	-1.60%	-
XIIC	Consumer Related	870.16	-1.34%	-23.22%
XIIF	Rate Sensitive	415.27	-1.15%	-34.50%
XISC	BUMN Stocks	473.85	-1.08%	-34.36%
XISB	Sovereign Bonds	418.66	0.11%	1.70%
<i>Conventional</i>				
RDMP	Equity	850.46	-1.35%	-27.04%
RPCF	Balanced	2,403.90	-0.93%	-19.32%
RDPU2	Money Market	1,265.83	0.11%	3.50%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					Cash	P/E (x) 2020F	Dividend Yield 2019
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	es			
1 RLQ45	31.2	47.1	13.3	7.9	0.5	18.0	3.6	
2 XIIT	30.4	50.9	11.4	6.9	0.4	18.1	3.6	
3 XISC	21.6	38.0	23.1	16.2	1.1	15.7	5.0	
4 XISR	29.4	61.4	4.1	4.9	0.2	19.0	3.4	
5 XIIF	12.9	56.2	30.6	0.0	0.3	17.8	3.4	
6 XISI	45.9	15.3	22.7	15.6	0.5	16.4	4.5	
7 XIPI	21.1	60.9	16.5	1.2	0.3	20.6	2.9	
8 XIIC	47.4	40.3	11.6	0.0	0.7	18.6	3.5	
9 XIHD	35.1	47.6	6.4	10.7	0.3	17.9	4.1	
10 XIJI	49.8	11.4	25.5	12.8	0.5	19.5	3.3	
11 XIML	24.9	66.7	4.2	3.8	0.3	18.1	3.8	
12 XIID	30.5	50.8	11.4	6.9	0.4	18.1	3.6	
Index								
IDX80	31.9	38.8	21.1	8.2		16.3	3.3	
JCI	32.5	36.5	23.0	8.0		18.0	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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