

Mixed PMI data as US's were above expectations while EU's disappointed

Global equity indices were mixed as S&P500 & Nasdaq gained and hit all-time highs due to strong economic data and despite FOMC Minutes signalling Fed's waning optimism about growth outlook, while stock markets elsewhere fell due to Eurozone's slowing rebound as implied by PMI data, coronavirus resurgence and rising US-China tensions. US markets started the week strong as housing starts showed growth of 22.6% MoM to 1.5m in July (above 1.24m consensus), corrected mid-week as Fed's Minutes pictured a cautious outlook, but markets ended strong as Markit Manufacturing & Services PMI data for August of 53.6 and 54.8, respectively, were above expectations, revealing strongest expansions since early 2019. In contrast, the corresponding EU's PMI data of 51.7 and 50.1, respectively, came below expectations, indicating slowing economic rebound in the Euro Area. However, S&P500's exceptionally rapid post-pandemic rebound is not broad-based, as it is driven by select big cap growth stocks in consumer staples, health care and tech sectors that well outperformed smaller cap, value and cyclical stocks.

JCI gained 0.48% during very short trading week supported by trade & services, banking, mining, and property & construction sectors, despite sustained foreign net outflows in equity and bond markets. Indonesia's Current Account deficit fell to \$2.9Bn in Q2 or 1.2% of GDP (Q1: \$3.7Bn), a dramatic improvement from a big deficit of \$8.3Bn a year earlier, owing to higher trade surpluses and lower primary income deficits this year despite the pandemic.

The Week Ahead – Fed Chair Powell Speech, Fed Jackson Hole Symposium

The key economic calendar to watch out next week include Indonesia 2W Sales (Mon 12:00), US New Home Sales (Tue 21:00), US Durable Goods Orders (Wed 19:30), US Weekly Initial Jobless Claims (Thu 19:30), Fed Chair Powell Speech (Thu 20:10), Indonesia Business Confidence (Fri 11:00), US Personal Income and Spending (Fri 19:30), US Jackson Hole Economic Policy Symposium (Thu-Fri).

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 just above 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 (eg. vaccine discovery). We now use our bullish-case 2020 JCI target of 5,600, set at the beginning of pandemic, since our base-case target of 5,300 is nearly achieved, as we believe the prospect of vaccine discovery should become clearer as we get nearer to the end of the year.

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 BBKA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a further market rebound, our pick is ETF XIML (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 from recovery. XIML 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 18.3x and 17.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 20.4x), XIIT (at 20.2x), and XIML (at 20.6x), 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	27,930.33	0.00%	-2.13%
S&P 500	3,397.16	0.72%	5.15%
Nasdaq	11,311.80	2.65%	26.07%
FTSE 100	6,001.89	-1.45%	-20.43%
DAX	12,764.80	-1.06%	-3.65%
Nikkei 225	22,920.30	-1.58%	-3.11%
Hang Seng	25,113.84	-0.27%	-10.91%
Shanghai	3,380.68	0.61%	10.84%
EIDO	19.49	0.31%	-24.05%

JCI Sector Indices	Last	1W	YTD
JAKTRAD	634.05	1.18%	-17.64%
JAKFIN	1,182.51	1.10%	-12.71%
JAKMINE	1,425.74	1.04%	-7.93%
JAKPROP	296.54	0.99%	-41.14%
JCI	5,272.81	0.48%	-16.30%
JAKCONS	1,943.76	0.05%	-5.31%
JAKBIND	762.73	-0.18%	-22.02%
JAKAGRI	1,187.65	-0.36%	-22.09%
JAKINFR	881.90	-0.70%	-22.48%
JAKMIND	941.50	-0.91%	-23.07%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	0 bps	-142 bps
UST 10Y Yield	0.64	-7 bps	-128 bps
Ind GB 10Y Yield	6.73	-5 bps	-34 bps
USDIDR	14,770	-25	904
CDS Indo 5Y	102.31	-3.20	40.07

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-377.78 Bn	-40.11 Tn
Government Bond Market (Rp)	-1.50 Tn	-122.90 Tn

Commodities	Last	1W	YTD
WTI	42.25	0.57%	-30.81%
Brent	44.35	-1.00%	-32.80%
CPO (Malaysia)	2,694.00	1.78%	-9.78%
Coal (New Castle)	49.80	-1.19%	-26.44%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	887.60	0.86%	-15.20%
XIIT	IDX30	481.94	0.84%	-14.82%
XIJI	JII	576.51	-0.14%	-18.24%
XISI	SMInfra18	277.65	1.20%	-18.86%
XISR	Sri Kehati	348.15	0.70%	-14.46%
XIHD	IDXHIDIV20	422.73	0.98%	-16.12%
XIPI	Pefindo I-Grade	148.13	1.01%	-17.43%
XIML	MSCI Indo Large Cap	240.26	0.74%	-
XIID	IDX30	460.22	0.83%	-
XIIC	Consumer Related	967.03	0.46%	-14.68%
XIIF	Rate Sensitive	478.27	2.05%	-24.57%
XISC	BUMN Stocks	560.12	2.12%	-22.41%
XISB	Sovereign Bonds	422.80	0.05%	2.71%
<i>Conventional</i>				
RDMP	Equity	958.18	0.88%	-17.80%
RPCF	Balanced	2,649.07	0.92%	-11.09%
RDP2	Money Market	1,258.44	0.06%	2.90%

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. Cyclicals	Commodities	Cash	2020F	2019
1 RLQ45	30.2	49.0	13.2	6.0	1.5	20.4	3.2
2 XIIT	29.9	52.6	10.8	6.4	0.3	20.2	3.2
3 XISC	19.9	37.0	23.1	13.7	6.3	17.7	4.3
4 XISR	28.1	63.1	3.8	4.6	0.4	21.0	3.0
5 XIIF	12.7	54.1	30.6	0.0	2.6	20.2	3.0
6 XISI	46.4	15.9	22.4	14.9	0.5	18.3	4.0
7 XIPI	20.6	62.7	15.2	1.3	0.2	23.0	2.5
8 XIIC	46.5	39.6	9.9	0.0	4.0	21.1	3.1
9 XIHD	34.6	48.9	6.4	9.7	0.4	20.1	3.6
10 XIJI	49.6	12.3	25.0	12.5	0.6	20.5	3.1
11 XIIML	24.4	67.8	4.1	3.5	0.2	20.6	3.4
12 XIID	30.0	52.6	10.8	6.4	0.2	20.2	3.2
Index							
IDX80	31.9	38.8	21.1	8.2		17.7	2.7
JCI	32.6	37.3	21.8	8.3		19.3	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

PT Indo Premier Investment Management

Telp. 021-57931260

Fund Sales Team

Noviono Darmosusilo	Director	noviono.d@ipc.co.id	ext	170	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	ext	560	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	ext	620	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	ext	625	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	ext	136	0857-9494-5058

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