

Hopes rise for new stimulus, Covid antibody therapies, orderly US election

Global stock markets sustained prior week's strong rebound as hopes rise for a new US stimulus deal despite on-again, off-again negotiations, House Speaker Pelosi's opposition to standalone relief without agreement for a broad package, and Senate Leader's warning that such an agreement is unlikely before election. Hopes also rise for new antibody therapies for Covid treatments, after President Trump's seemingly rapid recovery and his promise that these drugs would soon be free and widely available, with drug maker Eli Lilly announcing it was seeking emergency use authorisation for its antibody therapy. Meanwhile, Joe Biden's widening lead in opinion polls lowers risk of inconclusive or contested election and is positive for stock markets, albeit pushing bond yields higher. A landslide win by Democrats, including gaining control of the Senate, would support new legislations, including new fiscal stimulus, and we believe this should be positive for Emerging Markets. Economic data released this week showed strong August retail sales growth in EU, a stable US initial jobless claims, while FOMC Minutes provided little guidance on implementation of Fed's new monetary policy and its asset purchases.

In Indonesia, JCI gained 2.58% on the back of issuance of the Omnibus Law on Job Creation although foreigners continued to exit with a net sell of Rp1.13Tn while bond market saw inflow of Rp4.98Tn. Indonesia's currency and CDS rate, a measure of country risk, both improved this week despite ongoing discussions to revise Bank Indonesia's charter, which will lower its independence.

The Week Ahead – Indonesia Interest Rate Decision & Trade Balance

The key economic calendar to watch out for in the week ahead are Indonesia Interest Rate Decision (Tue 14:30), US Inflation Rate (Tue 19:30), EU Industrial Production (Wed 16:00), Indonesia Trade Balance and Business Confidence (Thu 11:00), US Jobless Claims (Thu 19:30), US Retail Sales (Fri 19:30) and Industrial Production (Fri 20:15).

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 2020F P/E of 16.9x and 16.3x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.7x), XIIT (at 18.7x), and XIIML (at 18.9x), 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	28,586.90	3.27%	0.17%
S&P 500	3,477.13	3.84%	7.63%
Nasdaq	11,579.94	4.56%	29.06%
FTSE 100	6,016.65	1.94%	-20.23%
DAX	13,051.23	2.85%	-1.49%
Nikkei 225	23,619.69	2.56%	-0.16%
Hang Seng	24,119.13	2.81%	-14.44%
Shanghai	3,272.08	1.68%	7.28%
EIDO	18.36	5.46%	-28.45%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,105.42	4.67%	-18.40%
JAKCONS	1,874.35	2.74%	-8.69%
JAKMIND	861.40	2.62%	-29.62%
JCI	5,053.66	2.58%	-19.78%
JAKINFR	825.14	2.32%	-27.46%
JAKBIND	743.12	2.09%	-24.03%
JAKAGRI	1,173.41	1.75%	-23.03%
JAKMINE	1,361.17	1.26%	-12.10%
JAKTRAD	630.79	0.33%	-18.06%
JAKPROP	327.61	-4.10%	-34.98%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	3 bps	-141 bps
UST 10Y Yield	0.78	8 bps	-114 bps
Ind GB 10Y Yield	6.91	-1 bps	-15 bps
USDIDR	14,675	-190	809
CDS Indo 5Y	94.51	-18.85	32.27

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.13 Tn	-61.28 Tn
Government Bond Market (Rp)	+4.98 Tn	-122.78 Tn

Commodities	Last	1W	YTD
WTI	40.60	9.58%	-33.51%
Brent	42.85	9.12%	-35.08%
CPO (Malaysia)	2,909.00	7.42%	-2.58%
Coal (New Castle)	57.40	-0.26%	-15.21%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	806.48	2.78%	-22.95%
XIIT	IDX30	434.50	2.69%	-23.20%
XIJI	JII	548.38	1.86%	-22.23%
XISI	SMInfra18	255.51	2.09%	-25.32%
XISR	Sri Kehati	320.19	3.08%	-21.33%
XIHD	IDXHIDIV20	386.92	2.79%	-23.23%
XIPI	Pefindo I-Grade	138.08	4.39%	-23.04%
XIIML	MSCI Indo Large Cap	218.24	3.35%	-
XIID	IDX30	422.74	2.68%	-
XIIC	Consumer Related	896.95	3.08%	-20.86%
XIIF	Rate Sensitive	436.31	5.07%	-31.19%
XISC	BUMN Stocks	497.55	5.00%	-31.08%
XISB	Sovereign Bonds	419.23	0.14%	1.84%
<i>Conventional</i>				
RDMP	Equity	879.21	3.38%	-24.57%
RPCF	Balanced	2,485.19	3.38%	-16.59%
RDPU2	Money Market	1,267.27	0.11%	3.62%

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	30.9	47.6	13.2	7.7	0.5	18.7	3.5
2	XIIT	30.2	51.4	11.2	6.7	0.4	18.7	3.5
3	XISC	21.6	37.4	23.8	16.2	1.1	16.3	4.8
4	XISR	29.0	62.0	4.1	4.8	0.2	19.6	3.3
5	XIIF	12.7	55.6	31.4	0.0	0.3	18.5	3.3
6	XISI	46.0	15.5	22.9	15.1	0.5	16.9	4.4
7	XIPI	20.5	61.8	16.0	1.3	0.3	21.6	2.7
8	XIIC	47.3	40.6	11.5	0.0	0.7	19.4	3.4
9	XIHD	34.9	48.2	6.3	10.3	0.3	18.6	3.9
10	XIJI	49.6	11.5	25.6	12.7	0.5	20.0	3.2
11	XIML	24.7	67.2	4.3	3.6	0.3	18.9	3.7
12	XIID	30.3	51.4	11.2	6.7	0.4	18.7	3.5
Index								
	IDX80	31.9	38.8	21.1	8.2		16.9	3.3
	JCI	32.4	37.2	22.5	7.8		18.8	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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