

Pandemic uncertainty boosts safe haven assets and US tech stocks

Equities performances were mixed this week as many markets were dragged by concerns about economic recovery due to resurgence of Covid-19 cases across the world while US markets were held up by tech stocks, which proved resilient during the pandemic. Treasury yields fall with 3-yr and 5-yr rates hitting all time lows and gold prices surging to a record high. Q2 GDP growth for US and Euro Area showed unprecedented contractions of 9.5% and 15.0% YoY, respectively, although these results were not unexpected, while US Congress failed to agree on the next stimulus deal. Although overall S&P500 earnings is expected to fall by 36% YoY in Q2, the US Big Four Tech companies Facebook, Apple, Amazon, and Alphabet (Google), which accounted for one-sixth of S&P500 total market capitalisation, reported quarterly results that beat high expectations, showing revenue gains despite the pandemic, and led the stock market higher on Friday.

In Indonesia, JCI gained 1.31% this week despite sustained foreign net outflows (Rp722 Bn), with banks, auto, mining, consumer and telecommunication sectors leading the market, while stocks in property, construction, and basic industries sectors continued underperforming.

The Week Ahead – Indonesia GDP Growth, Inflation & Manufacturing PMI

The key economic calendar to watch out for next week are Indonesia Market Manufacturing PMI (Mon 07:30), China Caixin Manufacturing PMI (Mon 08:45), Indonesia Inflation (Mon 11:00), US ISM Manufacturing PMI (Mon 21:00), China Caixin Services PMI (Wed 08:45), Indonesia GDP Growth & Business Confidence (Wed 11:00/12:00), EU Retail Sales (Wed 16:00), US Jobless Claims (Thu 19:30), US Non Farm Payrolls & Unemployment Rate (Fri 19:30).

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 JCI target of 5,300 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 BBKA, 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 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 16.8x and 16.1x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 19.3x), XIIT (at 19.1x), and XIIML (at 20.0x), 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	26,428.32	-0.16%	-7.39%
S&P 500	3,271.12	1.73%	1.25%
Nasdaq	10,745.27	3.69%	19.76%
FTSE 100	5,897.76	-3.69%	-21.81%
DAX	12,313.36	-4.09%	-7.06%
Nikkei 225	21,710.00	-4.58%	-8.23%
Hang Seng	24,595.35	-0.45%	-12.75%
Shanghai	3,310.01	3.54%	8.52%
EIDO	18.74	-1.68%	-26.97%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,134.93	2.74%	-16.22%
JAKMINE	1,370.18	1.53%	-11.52%
JAKTRAD	622.99	1.72%	-19.07%
JAKAGRI	1,156.32	0.97%	-24.15%
JAKINFR	904.06	0.77%	-20.53%
JCI	5,149.63	1.31%	-18.25%
JAKMIND	921.73	1.79%	-24.69%
JAKCONS	1,886.05	1.88%	-8.12%
JAKPROP	300.50	-1.14%	-40.36%
JAKBIND	752.08	-3.37%	-23.11%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.11	-4 bps	-146 bps
UST 10Y Yield	0.54	-5 bps	-138 bps
Ind GB 10Y Yield	6.83	-4 bps	-24 bps
USDIDR	14,600	-10	734
CDS Indo 5Y	115.97	0.51	53.73

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-722.6 Bn	-36.06 Tn
Government Bond Market (Rp)	-157 Bn	-119.8 Tn

Commodities	Last	1W	YTD
WTI	40.27	-2.59%	-34.05%
Brent	43.52	0.42%	-34.06%
CPO (Malaysia)	2,780.00	2.66%	-6.90%
Coal (New Castle)	52.70	1.35%	-22.16%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	854.50	1.61%	-18.36%
XIIT	IDX30	462.03	1.61%	-18.34%
XIJI	JII	566.65	0.79%	-19.64%
XISI	SMInfra18	270.61	1.67%	-20.91%
XISR	Sri Kehati	335.45	2.19%	-17.58%
XIHD	IDXHIDIV20	408.70	2.21%	-18.90%
XIPI	Pefindo I-Grade	141.69	0.58%	-21.02%
XIIML	MSCI Indo Large Cap	231.29	2.47%	-
XIID	IDX30	441.71	1.50%	-
XIIC	Consumer Related	929.79	1.31%	-17.96%
XIIF	Rate Sensitive	456.58	-0.29%	-27.99%
XISC	BUMN Stocks	532.92	-0.02%	-26.18%
XISB	Sovereign Bonds	420.30	0.46%	2.10%
<i>Conventional</i>				
RDMP	Equity	919.30	1.09%	-21.13%
RPCF	Balanced	2,560.58	0.97%	-14.06%
RDPUI2	Money Market	1,255.53	0.06%	2.66%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x) 2020F	Dividend Yield 2019
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash		
1 RLQ45	30.3	48.0	13.8	5.8	2.2	19.3	3.3
2 XIIT	27.7	51.3	12.2	6.3	2.5	19.1	3.4
3 XISC	20.8	34.6	24.9	13.6	6.0	16.1	4.6
4 XISR	29.3	62.2	3.8	4.3	0.3	20.0	3.1
5 XIIF	13.4	52.5	30.9	0.0	3.2	20.3	3.1
6 XISI	48.2	14.9	22.7	13.9	0.3	16.8	4.2
7 XIPI	21.5	61.6	15.4	1.3	0.3	21.9	2.7
8 XIIC	47.0	37.7	10.1	0.0	5.3	20.1	3.3
9 XIHD	35.8	47.5	6.8	9.5	0.4	18.5	3.8
10 XIJI	53.6	12.8	20.8	10.5	2.4	19.0	3.4
11 XIIML	25.3	66.9	4.2	3.3	0.2	20.0	3.4
12 XIID	27.9	50.8	12.3	6.2	2.7	19.1	3.4
Index							
IDX80	31.9	38.8	21.1	8.2	0.0	17.6	2.7
JCI	32.9	37.3	22.2	7.5	0.0	17.9	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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