

Positive vaccine news & stimulus hopes outweigh weak US economic data

Global stocks advanced, with US markets hitting fresh all-time highs, as vaccine rollouts begin, FDA approved Moderna's vaccine, signs of progress emerged on US stimulus and Brexit trade talks, and Fed committed to buy \$120Bn in assets a month until substantial progress has been made in achieving unemployment and inflation goals. While US, UK, and Canada have granted approval and begin rollouts of Pfizer/BioNTech's vaccine this week, EU's regulator EMA is scheduled to review this vaccine on 21 December and vaccinations could begin across EU starting on 27 December, if approved. European markets were also boosted by EU's signal of a path to agreement with UK over post Brexit talks and improving PMI data. Meanwhile, US retail sales growth of -1.1% MoM in November was weaker than expected, as also for weekly jobless claims which rose to 885k, its highest in three months. However, this weak economic data was outweighed by optimism arising from vaccine rollouts and fiscal relief hopes.

In Indonesia, JCI was up 2.8% this week, continuing its bullish trend as foreign inflows returned with Net Buy of Rp994Bn, CDS rate edged closer to an all time low and President Jokowi announced Covid vaccines will be available for free. Cyclical and commodity sectors continued to lead the market this week, except for banks and basic industries. Bond market also benefited from foreign inflows (Rp2.74Tn), which pushed 10-yr yields 20bps lower to just below 6.0%.

The Week Ahead – EU regulator EMA's meeting to approve Pfizer vaccine

The key economic calendar to watch out next week include Indonesia 2W Sales (Mon 11:30) and US data for Existing Home Sales (Tue 22:00), Personal Income & Spending (Wed 20:30), New Home Sales (Wed 22:00), Durable Goods Order and Initial Jobless Claims (Thu 20:30). On vaccine front, EU regulator European Medicine's Agency will meet to decide on Pfizer's vaccine on 21 December and is expected to approve it.

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 new waves of infections. We believe Indonesia's coronavirus fallout is already fully priced in as JCI's forward P/E valuation has fallen to 20-yr average, while global markets valuation have returned to pre-pandemic highs of 1SD above long-term mean. We view Indonesia's market valuation as attractive and expect JCI to continue its recovery, driven by catalysts such as vaccine discovery, Omnibus Law and Indonesia's improving macro outlook. With a persistent bullish market outlook, we maintain our 2021 JCI target of 6,600, for now.

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) or XIPI (Pefindo i-Grade), which have overweight positions in BBKA, which is considered as defensive stock at times of uncertainty. Please note that ESG (Environmental, Social & Governance) ETFs globally saw record inflows in 2020 amid the pandemic, after a strong rise in 2019. For investors looking to benefit from market rebound, our pick is ETF XIIM (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. XIIM 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 riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 16x and 15.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 17.8x), XIIT (at 17.6x), and XIIM (at 17.5x), and thus may continue to have more upside potential if Indonesia's stock market recovers on sustainable basis and investors continue to rotate away from defensive sectors into cyclical stocks. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	30,179.05	0.44%	5.75%
S&P 500	3,709.41	1.25%	14.81%
Nasdaq	12,755.64	3.05%	42.16%
FTSE 100	6,529.18	-0.27%	-13.43%
DAX	13,630.51	3.94%	2.88%
Nikkei 225	26,763.39	0.42%	13.13%
Hang Seng	26,498.60	-0.03%	-6.00%
Shanghai	3,394.90	1.43%	11.30%
EIDO	23.96	3.54%	-6.63%

JCI Sector Indices	Last	1W	YTD
JAKMIND	1,109.40	7.60%	-9.35%
JAKMINE	1,939.33	5.94%	25.23%
JAKINFR	1,030.38	5.73%	-9.42%
JAKTRAD	770.34	4.84%	0.07%
JAKAGRI	1,440.49	4.49%	-5.51%
JAKPROP	409.14	3.47%	-18.80%
JCI	6,104.32	2.80%	-3.10%
JAKCONS	1,878.72	1.54%	-8.47%
JAKFIN	1,360.07	1.38%	0.40%
JAKBIND	947.70	0.46%	-3.11%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.12	0 bps	-145 bps
UST 10Y Yield	0.94	4 bps	-98 bps
Ind GB 10Y Yield	5.98	-20 bps	-108 bps
USDIDR	14,146	76	280
CDS Indo 5Y	67.29	-2.39	5.05

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+994.0 Bn	-59.86 Tn
Government Bond Market (Rp)	+2.74 Tn	-88.28 Tn

Commodities	Last	1W	YTD
WTI	49.07	5.37%	-19.64%
Brent	52.28	4.62%	-20.79%
CPO (Malaysia)	3,665.00	3.12%	22.74%
Coal (New Castle)	80.00	2.96%	18.17%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,002.72	3.33%	-4.20%
XIIT	IDX30	535.29	2.97%	-5.39%
XIJI	JII	659.43	3.51%	-6.48%
XISI	SMInfra18	338.85	6.01%	-0.97%
XISR	Sri Kehati	390.47	2.56%	-4.06%
XIHD	IDXHIDIV20	477.05	2.08%	-5.34%
XIPI	Pefindo I-Grade	178.42	2.54%	-0.55%
XIIM	MSCI Indo Large Cap	263.26	2.24%	-
XIID	IDX30	520.11	2.97%	-
XIIC	Consumer Related	1,067.40	4.17%	-5.82%
XIIF	Rate Sensitive	618.16	7.46%	-2.50%
XISC	BUMN Stocks	795.56	11.03%	10.20%
XISB	Sovereign Bonds	448.59	1.23%	8.97%
<i>Conventional</i>				
RDMP	Equity	1,091.94	4.62%	-6.32%
RPCF	Balanced	3,058.35	4.14%	2.64%
RDPU2	Money Market	1,282.25	0.10%	4.84%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2021F	2021F	
1 RLQ45	27.8	49.2	13.9	8.7	0.33	17.8	2.5	1.12
2 XIIT	27.6	53.2	11.2	7.6	0.39	17.6	2.6	1.18
3 XISC	19.4	31.7	29.5	19.1	0.21	15.7	2.9	1.22
4 XISR	26.5	62.5	5.6	4.9	0.52	18.3	2.4	1.17
5 XIIF	11.4	48.6	39.2	0.0	0.80	17.6	2.3	1.22
6 XISI	44.3	15.2	25.2	14.9	0.34	16.0	2.8	1.13
7 XIPI	20.3	59.4	17.5	2.5	0.30	19.5	2.0	1.20
8 XIIC	42.6	43.3	12.7	0.0	1.44	17.9	2.7	1.10
9 XIHD	31.7	49.7	6.6	11.6	0.37	17.3	2.8	1.17
10 XIJI	50.5	1.5	31.6	16.3	0.19	22.1	2.1	1.09
11 XIIML	22.0	70.2	3.9	3.5	0.32	17.5	2.7	1.20
12 XIID	27.6	53.2	11.2	7.6	0.34	17.6	2.6	1.22
Index								
IDX80	31.9	38.8	21.1	8.2		17.0	3.2	
JCI	30.0	38.2	22.7	9.1		16.9	2.2	

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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