

A choppy week for stocks amid rising speculation, worsening pandemic

Global equities dropped sharply amid rising speculative activities in US markets as the battle between retail traders and institutional short sellers gets the most attention, despite a busy earnings week, and led to a much higher volatility. Investor confidence is also clouded by worsening pandemic and concerns over new coronavirus variants, vaccine rollout delays and delayed US new fiscal aid package, which in turn led to rising risk aversion. Meanwhile, US economic data was mixed as higher consumer confidence, personal income and spending and lower initial jobless claims were offset by a lower than expected durable goods order growth in December (0.2% MoM vs. consensus of 0.9%). US Q4 GDP growth also slowed to 4% QoQ, from 33.4% in the prior quarter, although this was expected. In Europe, stocks declined amid new restrictions to curb spread of new coronavirus variants, delays in the distribution of vaccines and flatish Q4 GDP in Germany, Spain and France. The World Bank has trimmed its world economic growth forecast to 4.0% for 2021 (previously: 4.2%) vs. -4.3% in 2020, assuming initial vaccine rollout becomes widespread throughout the year.

In Indonesia, JCI was down sharply by 7.05% as stocks declined across sectors, particularly in mining, property & construction, infrastructure, auto and banking sectors amid modest foreign outflow of Rp513.3Bn and expected rebalancing of key broad-based stock indices in February. Meanwhile, the bond market still recorded a substantial foreign net inflow of Rp4.81Tn during the week.

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

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 Rate (Mon 11:00), US ISM Manufacturing PMI (Mon 22:00), EU GDP Growth Rate (Tue 17:00), China Caixin Services PMI (Wed 08:45), US ISM Non-Manufacturing PMI (Wed 22:00), EU Retail Sales (Thu 17:00), US Initial Jobless Claims (Thu 20:30), Indonesia GDP Growth Rate (Fri 11:00), and US Non Farm Payrolls and Unemployment Rate (Fri 20:30).

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 new waves of infections. We expect JCI to continue with its uptrend momentum, driven by catalysts such as vaccine distribution, Omnibus Law, commodity price recovery, although we believe its valuation has priced-in earnings recovery prospects. We keep our 2021 JCI target of 6,600 for now (our bullish case: 7,000), pending the release of Q1 2021 corporate earnings results at end of April and May.

Recommendation

We have been recommending investors to stay defensive since 2019, before the pandemic, with our broad-based ETFs RLQ45 and XIIT to minimize volatility and our ESG ETF XISR (Sri Kehati) and 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 XIIML (MSCI Indonesia Large Cap), whose constituents of 11 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 riskier during the pandemic. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 14.9x and 14.5x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.6x), XIIT (at 16.6x), and XIIML (at 16.7x), 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 on the back of vaccine distribution and expected economic recovery. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	29,982.62	-3.27%	-2.04%
S&P 500	3,714.24	-3.31%	-1.11%
Nasdaq	13,070.69	-3.49%	1.42%
FTSE 100	6,407.46	-4.30%	-0.82%
DAX	13,432.87	-3.18%	-2.08%
Nikkei 225	27,663.39	-3.38%	0.80%
Hang Seng	28,283.71	-3.95%	3.87%
Shanghai	3,483.07	-3.43%	0.29%
EIDO	22.45	-8.03%	-4.14%

JCI Sector Indices	Last	1W	YTD
JAKTRAD	800.08	-1.96%	4.40%
JAKAGRI	1,380.57	-5.05%	-7.84%
JCI	5,862.35	-7.05%	-1.95%
JAKCONS	1,696.90	-7.13%	-7.38%
JAKBIND	912.30	-7.21%	-0.94%
JAKPROP	365.04	-7.55%	-8.02%
JAKFIN	1,329.57	-7.58%	-0.27%
JAKINFR	964.05	-7.92%	-3.69%
JAKMIND	1,070.33	-8.22%	-0.99%
JAKMINE	1,893.30	-9.25%	-1.16%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.11	-1 bps	-1 bps
UST 10Y Yield	1.07	-1 bps	15 bps
Ind GB 10Y Yield	6.26	-1 bps	32 bps
USDIDR	14,084	30	-21
CDS Indo 5Y	75.86	2.45	8.35

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-513.3 Bn	+8.34 Tn
Government Bond Market (Rp)	+4.81 Tn	+11.47 Tn

Commodities	Last	1W	YTD
WTI	52.20	-0.13%	7.58%
Brent	55.04	-0.67%	6.25%
CPO (Malaysia)	3,385.00	3.14%	-5.66%
Coal (New Castle)	86.30	0.47%	6.02%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	950.84	-8.02%	-2.44%
XIIT	IDX30	503.09	-8.68%	-2.96%
XIJI	JII	611.16	-7.33%	-4.48%
XISI	SMInfra18	314.83	-9.21%	-5.17%
XISR	Sri Kehati	368.79	-8.16%	-2.77%
XIHD	IDXHIDIV20	440.68	-8.78%	-4.07%
XIPI	Pefindo I-Grade	170.53	-8.19%	-1.13%
XIIML	MSCI Indo Large Cap	247.47	-8.00%	-2.51%
XIID	IDX30	488.55	-8.68%	-2.99%
XIIC	Consumer Related	979.06	-8.11%	-5.35%
XIIF	Rate Sensitive	554.27	-9.68%	-5.83%
XISC	BUMN Stocks	734.67	-13.09%	-3.76%
XISB	Sovereign Bonds	440.51	0.20%	-1.26%
<i>Conventional</i>				
RDMP	Equity	993.70	-9.13%	-6.00%
RPCF	Balanced	2,826.92	-6.70%	-5.31%
RDP2	Money Market	1,289.35	0.09%	0.37%

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	36.2	44.6	10.9	7.6	0.64	16.6	2.7	1.12
2 XIIT	36.0	46.2	10.1	4.9	2.86	16.6	2.9	1.18
3 XISC	14.7	34.6	28.1	22.4	0.16	14.5	3.3	1.22
4 XISR	32.0	57.4	7.2	3.1	0.38	17.1	2.6	1.17
5 XIIF	18.9	63.1	17.5	0.0	0.45	16.6	2.6	1.22
6 XISI	37.2	16.6	35.4	10.5	0.37	14.9	3.1	1.13
7 XIPI	20.1	61.4	12.3	5.9	0.26	18.5	2.2	1.20
8 XIIC	49.6	41.5	7.8	0.0	1.16	17.1	3.0	1.10
9 XIHD	34.9	44.7	8.8	8.9	2.69	16.3	3.1	1.17
10 XIJI	53.4	2.6	29.1	14.6	0.20	19.3	2.1	1.09
11 XIML	31.2	61.7	6.8	0.0	0.23	16.7	2.9	1.20
12 XIID	35.9	46.1	10.1	4.9	3.01	16.6	2.9	1.22
Index								
IDX80	39.9	35.6	14.8	9.7		15.4	2.5	
JCI	34.7	41.2	14.7	9.4		15.7	1.9	

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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