

Vaccine progress, stimulus hopes, and strong earnings boosted equities

Stocks rebounded strongly this week from the prior week's losses as optimism returned to global markets amid declining new virus cases, vaccine distribution progress, fiscal stimulus hopes, strong earnings season, and renewed recovery signs. In the US, 40.5m Covid vaccine doses have been administered to date, out of 128m doses globally, averaging 1.43m doses a day in the last week amid a decline in new virus cases. Johnson & Johnson has asked for FDA approval with its committee meeting scheduled for Feb 26. Meanwhile, a large pandemic relief bill has underpinned bullish markets as Democrats are prepared to move ahead, without Republican support, to pass Biden administration's proposed US\$1.9Tn fiscal stimulus package. In addition, US Q4 earnings season is strong as 84% of 286 companies in S&P500 that have reported to date beat analyst expectations. From economic data releases, ISM survey showed a stronger than expected expansions in US services sector in January, while initial jobless claims and factory orders growth were also better than expected. In Europe, EU's Q4 GDP growth rate of -5.1% YoY was also still better than expected (cons: -5.4%). This renewed optimism about global economic recovery prospects in turn led to rising bond yields and oil prices this week.

In Indonesia, JCI rebounded strongly by 4.94% amid modest foreign outflow of Rp412Bn this week, which was in contrast to bond market's foreign inflow of Rp8.23Tn. Major stocks in basic industries, infrastructure, mining, and banking sectors recovered the strongest, while stocks in auto, plantation, property and consumer sectors were among the laggards during the week.

The Week Ahead – ECB President Lagarde & Fed Chair Powell Speeches

The key economic calendar to watch out for next week are Germany Industrial Production (Mon 14:00), ECB President Lagarde Speech (Mon 23:15), US Inflation Rate (Wed 20:30), Fed Chair Powell Speech (Thu 02:00), US Jobless Claims (Thu 20:30), Fed Monetary Policy Report (Thu 23:00), UK GDP Growth Rate (Fri 14:00). Meanwhile, Indonesia reported GDP growth rate of -2.19% and -2.07% YoY in Q4 and FY2020, respectively (cons: -2.0% YoY for both periods).

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 BBCA, 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 BBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBCA 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 15.8x and 15.5x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.1x), XIIT (at 17.4x), and XIIML (at 17.4x), 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	31,148.24	3.89%	1.77%
S&P 500	3,886.83	4.65%	3.48%
Nasdaq	13,856.30	6.01%	7.51%
FTSE 100	6,489.33	1.28%	0.45%
DAX	14,056.72	4.64%	2.46%
Nikkei 225	28,779.19	4.03%	4.86%
Hang Seng	29,288.68	3.55%	7.56%
Shanghai	3,496.33	0.38%	0.67%
EIDO	23.86	6.28%	1.88%

JCI Sector Indices	Last	1W	YTD
JAKBIND	998.47	9.45%	8.42%
JAKINFR	1,018.35	5.63%	1.73%
JAKMINE	1,988.98	5.05%	3.83%
JCI	6,151.73	4.94%	2.89%
JAKFIN	1,391.50	4.66%	4.37%
JAKTRAD	835.56	4.43%	9.03%
JAKCONS	1,764.65	3.99%	-3.68%
JAKPROP	378.77	3.76%	-4.56%
JAKAGRI	1,427.00	3.36%	-4.74%
JAKMIND	1,080.78	0.98%	-0.03%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.11	0 bps	-2 bps
UST 10Y Yield	1.17	10 bps	25 bps
Ind GB 10Y Yield	6.16	-5 bps	22 bps
USIDIR	14,062	32	-43
CDS Indo 5Y	68.63	-7.23	1.12

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-412.6 Bn	+7.93 Tn
Government Bond Market (Rp)	+8.23 Tn	+21.64 Tn

Commodities	Last	1W	YTD
WTI	56.85	8.91%	17.17%
Brent	59.34	6.19%	14.56%
CPO (Malaysia)	3,399.00	-2.61%	-12.64%
Coal (New Castle)	84.40	-2.09%	3.69%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	993.18	4.45%	1.90%
XIIT	IDX30	523.24	4.00%	0.93%
XIJI	JII	650.76	6.48%	1.71%
XISI	SMInfra18	331.46	5.28%	-0.16%
XISR	Sri Kehati	383.74	4.05%	1.17%
XIHD	IDXHIDIV20	458.06	3.94%	-0.29%
XIPI	Pefindo I-Grade	180.41	5.80%	4.60%
XIIML	MSCI Indo Large Cap	256.19	3.52%	0.92%
XIID	IDX30	508.04	3.99%	0.88%
XIIC	Consumer Related	1,023.67	4.56%	-1.03%
XIIF	Rate Sensitive	586.43	5.80%	-0.37%
XISC	BUMN Stocks	788.55	7.33%	3.30%
XISB	Sovereign Bonds	442.53	0.46%	-0.81%
<i>Conventional</i>				
RDMP	Equity	1,041.42	4.80%	-1.49%
RPCF	Balanced	2,938.60	3.95%	-1.57%
RDP2	Money Market	1,290.48	0.09%	0.46%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Func	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2021F	2021F	
1	RLQ45	26.3	49.9	15.1	8.6	0.09	18.1	2.5	1.12
2	XIIT	28.0	52.8	10.8	8.2	0.13	17.4	2.7	1.18
3	XISC	19.2	34.7	27.4	18.6	0.13	15.5	3.1	1.22
4	XISR	25.5	64.2	5.3	4.8	0.34	17.9	2.5	1.17
5	XIIF	11.1	50.4	38.1	0.0	0.36	17.4	2.5	1.22
6	XISI	43.4	16.6	25.5	14.2	0.29	15.8	3.0	1.13
7	XIPI	17.1	59.4	17.7	5.6	0.22	19.7	2.1	1.20
8	XIIC	42.5	44.7	11.8	0.0	1.05	17.9	2.9	1.10
9	XIHD	30.2	54.0	4.6	10.9	0.40	17.4	2.9	1.17
10	XIJI	48.7	1.3	33.3	16.5	0.16	20.6	2.0	1.09
11	XIML	21.1	72.1	3.6	3.2	0.18	17.4	2.8	1.20
12	XIID	26.4	52.8	9.8	8.2	2.80	17.4	2.7	1.22
Index									
	IDX80	30.0	41.3	18.1	10.6		19.9	2.4	
	JCI	30.2	39.2	21.7	8.9		18.6	1.8	

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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