

Positive vaccine news offset by worsening pandemic, economic weakness

Encouraging vaccine news from Pfizer and Moderna, which both reported 95% effectiveness and are filing for emergency use authorisation with FDA, failed to sustain US equity markets rally this week. Surging Covid cases in US and Europe and the resulting lockdown measures imply economies would get worse before the vaccines would become widely available, while President Trump's refusal to concede the election may reduce chances for a bipartisan agreement on a new stimulus package. US economic data also show signs of weakness as retail sales ex-auto growth of 0.2% MoM in October (September: 1.2%) missed consensus expectation of 0.6%, while jobless claims rose to 742,000 (previously 711,000), although home sales remain robust. Elsewhere, stock markets and commodity prices maintain their uptrend on vaccine optimism and signing of a major trade deal (Regional Comprehensive Economic Partnership) between China, Japan, South Korea and 12 other Asia-Pacific countries, which now forms the world's largest trade block.

In Indonesia, JCI gained 2.03% as foreign equity inflows continued into fourth week with a Net Buy of Rp534Bn. Leading the market are telecommunication, property & construction, mining and infrastructure sectors, while auto, basic industries, plantation, retailing and banking stocks were laggards. Meanwhile, Indonesia's currency and CDS rate weakened slightly as BI cut rate by 25bps to 3.75% and bond market recorded small outflow of Rp680Bn this week.

The Week Ahead – EU and US Markit PMI data, Indonesia Motorbike Sales

The key economic calendar to watch out next week are Indonesia Motorcycle Sales (Mon 10:00), Markit Manufacturing & Services PMIs for EU (Mon 16:00), and US (Mon 21:45), US Durable Goods Order (Wed 20:30), US Initial Jobless Claims (Wed 20:30), US Personal Income and Spending (Wed 22:00), and FOMC Minutes (Thu 02:00), as US markets will be closed on Thursday and Friday due to Thanksgiving holiday.

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'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 positive catalysts such as vaccine discovery and Omnibus Law. We maintain our 2020 JCI target of 5,600 and 2021 target of 6,300-6,600.

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) 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 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 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 14.6x and 14.2x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.6x), XIIT (at 16.7x), and XIIML (at 16.6x), and thus may have more upside potential if Indonesia's stock market recovers on sustainable basis and investors are rotating away from defensive into cyclical sectors, which should benefit the most from vaccine discovery and economic recovery. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	29,263.48	-0.73%	2.54%
S&P 500	3,557.54	-0.77%	10.11%
Nasdaq	11,854.97	0.22%	32.12%
FTSE 100	6,351.45	0.56%	-15.79%
DAX	13,137.25	0.46%	-0.84%
Nikkei 225	25,527.37	0.56%	7.91%
Hang Seng	26,451.54	1.13%	-6.17%
Shanghai	3,377.73	2.04%	10.74%
EIDO	21.58	1.03%	-15.90%

JCI Sector Indices	Last	1W	YTD
JAKINFR	935.17	6.75%	-17.79%
JAKPROP	352.87	4.55%	-29.97%
JAKMINE	1,562.93	3.45%	0.92%
JAKCONS	1,856.26	2.17%	-9.57%
JCI	5,571.66	2.03%	-11.55%
JAKFIN	1,273.66	1.48%	-5.98%
JAKBIND	836.31	1.39%	-14.50%
JAKTRAD	658.29	-0.20%	-14.49%
JAKAGRI	1,238.41	-0.43%	-18.76%
JAKMIND	1,008.59	-1.84%	-17.59%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.16	-2 bps	-141 bps
UST 10Y Yield	0.82	-7 bps	-109 bps
Ind GB 10Y Yield	6.20	-10 bps	-86 bps
USDIDR	14,150	-20	284
CDS Indo 5Y	79.32	3.58	17.08

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+534.22Bn	-56.92 Tn
Government Bond Market (Rp)	-0.68 Tn	-97.13 Tn

Commodities	Last	1W	YTD
WTI	42.42	5.71%	-30.53%
Brent	44.96	5.10%	-31.88%
CPO (Malaysia)	3,483.00	5.58%	16.64%
Coal (New Castle)	63.35	1.77%	-6.43%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	923.41	2.01%	-11.78%
XIIT	IDX30	497.64	1.75%	-12.04%
XIJI	JII	604.01	1.99%	-14.34%
XISI	SMInfra18	293.38	3.62%	-14.26%
XISR	Sri Kehati	366.39	2.05%	-9.98%
XIHD	IDXHIDIV20	441.43	2.72%	-12.41%
XIPI	Pefindo I-Grade	162.63	2.67%	-9.36%
XIIML	MSCI Indo Large Cap	249.12	1.79%	-
XIID	IDX30	483.78	1.74%	-
XIIC	Consumer Related	1,001.11	1.65%	-11.67%
XIIF	Rate Sensitive	534.38	3.00%	-15.72%
XISC	BUMN Stocks	636.14	5.22%	-11.88%
XISB	Sovereign Bonds	435.87	0.58%	5.88%
<i>Conventional</i>				
RDMP	Equity	985.34	2.27%	-15.47%
RPCF	Balanced	2,792.13	2.29%	-6.29%
RDPU2	Money Market	1,276.36	0.13%	4.36%

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. Cyclicals	Commodities	Cash	2021F	2021F		
1 RLQ45	28.6	50.3	13.4	7.4	0.31	16.6	2.7	1.12	
2 XIIT	28.4	53.8	11.1	6.3	0.37	16.7	2.8	1.18	
3 XISC	21.3	35.7	27.0	15.0	0.92	14.2	3.2	1.23	
4 XISR	26.9	64.1	4.5	4.4	0.24	17.1	2.6	1.17	
5 XIIF	11.9	53.9	33.4	0.0	0.75	16.5	2.5	1.22	
6 XISI	44.8	16.3	25.1	13.4	0.36	14.6	3.2	1.13	
7 XIPI	20.3	61.1	16.5	1.7	0.39	18.1	2.2	1.20	
8 XIIC	43.5	43.1	12.3	0.0	1.20	17.2	2.9	1.10	
9 XIHD	33.1	50.4	6.7	9.6	0.18	16.5	2.9	1.18	
10 XIJI	47.6	12.6	26.8	12.6	0.33	18.8	2.5	1.09	
11 XIIML	23.3	69.4	4.0	3.0	0.28	16.6	3.0	1.20	
12 XIID	28.4	53.7	11.1	6.3	0.36	16.7	2.8	1.22	
Index									
IDX80	31.9	38.8	21.1	8.2		14.9	2.8		
JCI	32.4	37.2	22.5	7.8		14.7	2.1		

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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