

Global stocks pull back amidst concern a recent rally had gone too fast

Investors took profit after an August rally, led by sell-off in some tech shares that had become overvalued. On economic front, the US unemployment rate fell to 8.4% in August, marking the 4th month of declines as the pace of job growth is slowing, monthly nonfarm payroll showed 1.37 million jobs add in August (vs. 1.73 million in July). The August rate is down from its April peak of 14.7%, but still remains far above the 3.5% recorded in February. The data released reflecting the earliest effects since enhanced federal unemployment benefits expired at the end of July. Following the release, the Fed reiterated its pledge to maintain interest rates lower for years to support recovery. In the other hand, manufacturing activity expanded in August as US ISM manufacturing data reached 56.9, IHS Markit for US and EU revised to 53.1 and 51.9, and China's Caixin PMI at 53.1, recovery continued albeit at a slower pace.

In Indonesia, JCI closed the week 2% lower inline with sustained foreign selling (net outflow: Rp4.66Tn), contrast to net inflow (Rp5.81Tn) in bond market. JCI dragged down by rate sensitive sectors such as auto, basic industry, banking and property, as The House of Representatives mulls fundamental change on how BI operates. While agriculture stocks gain as CPO price jumped by 4%.

The Week Ahead – Indonesia FX Reserve, ECB Rate Decision, US Inflation

The key economic calendar to watch out for next week include China Balance of Trade (Mon 10:00), Indonesia Foreign Exchange Reserves (Mon 10:00), China Foreign Exchange Reserves (Mon 14:00), Japan GDP (Tue 06:50), Indonesia Consumer Confidence (Tue 10:00), EU GDP 3rd Est. & Employment Change (Tue 16:00), China Inflation (Wed 08:30), Indonesia Retail Sales (Wed 10:00), ECB Interest Rate Decision (Thu 18:45), US Initial Jobless Claims (Thu 19:30), ECB President Speech (Fri 00:00), Eurogroup Meeting (Fri 15:00), and US Inflation (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. We believe Indonesia's coronavirus fallout is already fully priced in as JCI P/E valuation has fallen to just above 20-yr average, while global markets valuation have returned to near pre-pandemic highs at 1SD above long-term averages. We view Indonesia's market valuation as attractive, regardless of GDP and earnings growth in 2020. Given high correlation factor of 0.80 between JCI and S&P500 indices in 2020 (vs. 0.19 in 2018-2019), we expect JCI will continue to recover, driven by global catalysts such as vaccine discovery. We now use our bullish-case 2020 JCI target of 5,600, set at the beginning of pandemic, as our base-case target of 5,300 has been achieved, as vaccine discovery prospect should become clearer as it gets nearer to the end of the year.

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 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 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 18.1x and 17.6x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 20.1x), XIIT (at 20.0x), and XIIML (at 20.2x), 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	28,133.31	-1.82%	-1.42%
S&P 500	3,426.96	-2.31%	6.07%
Nasdaq	11,313.13	-3.27%	26.09%
FTSE 100	5,799.08	-2.76%	-23.11%
DAX	12,842.66	-1.46%	-3.07%
Nikkei 225	23,205.43	1.41%	-1.91%
Hang Seng	24,695.45	-2.86%	-12.40%
Shanghai	3,355.37	-1.42%	10.01%
EIDO	19.38	-4.25%	-24.47%

JCI Sector Indices	Last	1W	YTD
JAKAGRI	1,234.58	4.34%	-19.02%
JAKMINE	1,424.16	0.62%	-8.04%
JAKCONS	1,953.66	-0.05%	-4.82%
JAKTRAD	633.29	-0.65%	-17.74%
JCI	5,239.85	-2.00%	-16.82%
JAKPROP	295.39	-2.53%	-41.38%
JAKFIN	1,188.69	-2.62%	-12.25%
JAKINFR	852.43	-2.65%	-25.06%
JAKMIND	904.54	-3.98%	-26.09%
JAKBIND	732.20	-4.81%	-25.14%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	2 bps	-142 bps
UST 10Y Yield	0.72	0 bps	-120 bps
Ind GB 10Y Yield	6.95	5 bps	-11 bps
USDIDR	14,740	108	874
CDS Indo 5Y	171.81	74.89	109.57

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-4.66 Tn	-47.93 Tn
Government Bond Market (Rp)	+5.81 Tn	-116.62 Tn

Commodities	Last	1W	YTD
WTI	39.51	-8.05%	-35.29%
Brent	42.66	-5.31%	-35.36%
CPO (Malaysia)	2,858.00	4.38%	-4.29%
Coal (New Castle)	49.00	-1.51%	-27.62%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	878.97	-2.57%	-16.02%
XIIT	IDX30	476.66	-2.62%	-15.75%
XIJI	JII	567.06	-2.13%	-19.58%
XISI	SMInfra18	273.37	-2.85%	-20.11%
XISR	Sri Kehati	346.81	-2.32%	-14.79%
XIHD	IDXHIDIV20	416.01	-2.55%	-17.46%
XIPI	Pefindo I-Grade	146.39	-3.28%	-18.40%
XIIML	MSCI Indo Large Cap	236.82	-2.71%	-
XIID	IDX30	455.02	-2.63%	-
XIIC	Consumer Related	957.67	-2.48%	-15.50%
XIIF	Rate Sensitive	473.90	-3.85%	-25.26%
XISC	BUMN Stocks	558.41	-2.85%	-22.65%
XISB	Sovereign Bonds	419.42	-0.18%	1.89%
<i>Conventional</i>				
RDMP	Equity	945.71	-2.69%	-18.87%
RPCF	Balanced	2,621.70	-2.18%	-12.01%
RDP2U	Money Market	1,260.88	0.08%	3.10%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield
		Defensive	Rate-Sensitive	Dom. Cyclicals	Commodities	Cash	2020F	2019
1	RLQ45	30.1	49.1	13.0	7.5	0.3	20.1	3.2
2	XIIT	29.5	52.7	10.9	6.6	0.3	20.0	3.3
3	XISC	21.3	37.6	22.2	15.4	3.5	17.6	4.4
4	XISR	28.1	63.0	4.0	4.6	0.3	21.0	3.0
5	XIIF	12.2	56.7	30.3	0.0	0.8	20.0	3.0
6	XISI	45.4	16.0	23.1	15.0	0.4	18.1	4.0
7	XIPI	20.4	63.3	14.6	1.4	0.3	22.8	2.6
8	XIIC	46.4	42.2	11.0	0.0	0.4	20.8	3.2
9	XIHD	34.0	49.1	6.4	10.1	0.4	19.8	3.6
10	XIJI	50.2	11.9	24.5	12.7	0.6	20.2	3.1
11	XIML	23.9	68.3	4.0	3.5	0.3	20.2	3.4
12	XIID	29.6	52.7	10.9	6.6	0.2	20.0	3.3
Index								
	IDX80	31.9	38.8	21.1	8.2		17.4	3.0
	JCI	32.3	38.6	21.1	7.9		19.0	2.3

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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