

Friday's stock market selloffs on discovery of new Covid variant Omicron

Global stock markets fell sharply on Friday as news about the emergence of a new, potentially more contagious, coronavirus variant named Omicron in South Africa raises the prospect of a prolonged pandemic. EM stocks fell more sharply than DM equities this week (-3.63% vs. -2.73%) as risk aversion drove investors into safe haven assets such as USD bonds. Yields on 10-yr US Treasuries eased to 1.48% on Friday, after climbing to 1.67% mid week, as the new virus variant could impact outlook for interest rates. Prior to the news on Omicron variant, bond yields rose as President Biden stated his plan to renominate Powell as Fed Chair (Powell is viewed as less dovish than Lael Brainard, the other candidate), FOMC Minutes revealed some members advocated acceleration of Fed's taper, while PCE Price Index picked up to 0.6% MoM (5% YoY) in October. Meanwhile, economic data releases were relatively positive as US weekly jobless claims fell to 199,000 (its lowest since 1969), well below expectations of 260,000, while US personal spending grew 1.3% MoM in October (cons.: 1%). Elsewhere in EU, Markit PMI data was also ahead of expectations although this positive data was clouded by new lockdowns and discovery of Omicron positive cases in Europe.

In Indonesia, JCI also declined this week (-2.36%) on the back of foreign selling (Rp602Bn) while the bond market was resilient as 10-yr yields rose only 5bps to 6.08% amid small inflows. The stock market's corrections occurred across large and small/mid cap stocks and was particularly steep in property and technology sectors while the healthcare, transportation, energy, and infrastructure sectors outperformed the market.

The Week Ahead – Fed Chair Powell Speech, US Jobs Growth Data

The key economic events and data releases to focus next week are Indonesia Motorcycle Sales (Mon 10:00), Fed Chair Powell Speech (Tue 03:35), China NBS Manufacturing & Non-Manufacturing PMI (Tue 08:00), EU Inflation (Tue 17:00), Indonesia Markit Manufacturing PMI and Inflation (Wed 07:30/11:00), US ADP Employment Change (Wed 20:15), US ISM Manufacturing PMI (Wed 22:00), US Initial Jobless Claims (Thu 20:30), US Non Farm Payrolls & Unemployment Rate (Fri 20:30), and US ISM Non-Manufacturing PMI (Fri 22:00).

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets this year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected, Indonesia's country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 has been achieved but we believe there is scope for further upside (our 2022 JCI target is 7,400) given lagging performances of EM (including Indonesia) in comparison to DM equities.

Recommendation

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45, XIIT (IDX30), XIPI (Pefindo i-Grade), and ESG ETF XISR (Sri Kehati) to minimize volatility. Both XIPI and XISR have overweight positions in BBCA, widely considered as defensive stock at times of uncertainty. XIPI also has an overweight position in cyclical stocks, including in banking and basic materials sectors, and underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from an economic recovery while still maintaining defensiveness through its overweight exposure in BBCA. We also like ETF XIIM (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen during the past four months.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,899.34	-1.97%	14.03%
S&P 500	4,594.62	-2.20%	22.33%
Nasdaq	15,491.66	-3.52%	20.20%
FTSE 100	7,044.03	-2.49%	9.03%
DAX	15,257.04	-5.59%	11.21%
Nikkei 225	28,751.62	-3.34%	4.76%
Hang Seng	24,080.52	-3.87%	-11.57%
Shanghai	3,564.09	0.10%	2.62%
MSCI World	3,131.98	-2.73%	16.43%
MSCI Emerging Markets	1,223.13	-3.63%	-5.28%

JCI Sector Indices	Last	1W	YTD
Healthcare	1,435.18	0.97%	9.52%
Transportation	1,427.48	-0.39%	49.75%
Energy	1,033.94	-0.72%	32.08%
Infrastructures	983.16	-0.84%	14.00%
Consumer Non-Cyclicals	687.79	-2.21%	-13.05%
JCI	6,561.55	-2.36%	9.74%
Basic Materials	1,215.07	-2.69%	-1.44%
Consumer Cyclical	850.61	-2.70%	14.50%
Financials	1,522.38	-3.02%	20.78%
Industrials	1,047.05	-3.35%	12.72%
Technology	9,023.15	-4.97%	710.14%
Property & Real Estate	816.14	-5.31%	-14.60%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.54	3 bps	42 bps
UST 10Y Yield	1.53	-2 bps	61 bps
Ind GB 10Y Yield	6.08	5 bps	20 bps
USDIDR	14,358	120	308
CDS Indo 5Y	78.03	0.31	10.52

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-602.29Bn	+42.38Tn
Government Bond Market (Rp)	+324.87Bn	-48.40Tn

Commodities	Last	1W	YTD
WTI	73.65	-3.22%	51.79%
Brent	78.16	-0.93%	50.89%
CPO (Malaysia)	4,857.00	-2.72%	69.88%
Coal (New Castle)	158.00	3.61%	96.27%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	999.57	-1.98%	2.56%
XIIT	IDX30	530.95	-1.73%	2.42%
XIJI	JII	595.91	-1.24%	-6.86%
XISI	SMInfra18	334.04	-1.35%	0.62%
XISR	SriKehati	386.19	-1.83%	1.82%
XIHD	IDXHIDIV20	490.68	-1.58%	6.81%
XIPI	Pefindo I-Grade	180.59	-1.87%	4.70%
XIIM	MSCI Indo Large Cap	258.87	-1.86%	1.98%
XIID	IDX30	518.51	-1.76%	2.96%
XIFE	FTSE ESG Indonesia	103.23	-2.06%	-
XIIC	Consumer Related	976.93	-3.52%	-5.55%
XIIF	Rate Sensitive	545.32	-4.12%	-7.35%
XISC	BUMN Stocks	710.58	-1.55%	-6.92%
XISB	Sovereign Bonds	451.51	-0.20%	1.20%

Conventional	Last	1W	YTD
RDMP Equity	922.00	-2.26%	-12.79%
RPCF Balanced	2,754.82	-1.22%	-7.73%
RDPU 2 Money Market	1,332.40	0.07%	3.73%

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	27.0	49.7	13.0	9.7	0.55	17.6	3.7	1.17
2 XIIT	29.8	52.0	7.4	10.2	0.55	17.8	3.9	1.16
3 XISC	19.8	43.6	16.6	16.6	3.42	17.1	2.9	1.36
4 XISR	26.3	65.6	3.1	4.7	0.33	18.3	4.3	1.13
5 XIIF	12.7	53.5	31.9	0.0	1.88	21.2	3.8	1.27
6 XISI	53.7	16.7	18.0	11.2	0.36	17.1	3.0	1.21
7 XIPI	21.3	61.1	13.2	4.1	0.25	21.0	3.8	1.18
8 XIIC	32.9	41.1	19.6	4.2	2.25	21.1	3.7	1.03
9 XIHD	29.6	53.8	3.7	12.2	0.74	17.1	4.4	1.14
10 XIJI	47.6	3.3	29.1	19.7	0.24	17.9	2.2	1.07
11 XIIML	19.2	74.6	3.2	2.8	0.21	18.5	4.5	1.15
12 XIID	29.8	52.3	7.4	10.2	0.24	17.8	3.9	1.16
13 XIFE	31.4	57.0	5.0	6.2	0.35	17.0	4.0	1.09
Index								
IDX80	33.1	36.3	18.4	12.3		16.8	2.6	
JCI	30.2	41.8	17.9	10.2		18.9	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

PT Indo Premier Investment Management

Telp. +62 21 5098 1168

Fund Sales Team

Noviono Darmosusilo	Director	noviono@ipc.co.id	Ext.	2168	0811-1351-168
M. Fairuz Zaman	Head Of Marketing	m.fairuz@ipc.co.id	Ext.	2311	0818-0262-7732
Dinda Novitri Muliani	Relationship Manager	dinda.novitri@ipc.co.id	Ext.	2313	0812-1071-0788
Frida Dwi Tyas	Relationship Manager & Distribution Channel	frida.tyas@ipc.co.id	Ext.	2314	0818-0912-6747
Indra Pratama	Relationship Manager	indra.p@ipc.co.id	Ext.	2315	0857-9494-5058

DISCLAIMER

© Copyright 2021 PT Indo Premier Investment Management ("IPIM"), all rights reserved. All copyrights subsisting and arising out of these materials belong to IPIM and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of IPIM.

This document is issued by IPIM and has been prepared for the recipient only. Any terms set forth herein are intended for informational and discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. This communication is not for distribution to any person or in any jurisdiction in which its distribution would be prohibited.

By reading this document you (i) acknowledge that you will be solely responsible for your own assessment of the product and of the risks and merits of any investment with IPIM, and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of the proposed investment and (ii) agree to be bound by the foregoing terms and to keep this document and the information contained herein confidential.

INVESTMENT IN MUTUAL FUND EXPOSES INVESTOR TO RISK. PROSPECTIVE INVESTOR MUST READ AND UNDERSTAND THE PROSPECTUS PRIOR TO INVEST IN MUTUAL FUNDS. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE