

Evidence of milder Omicron, new Covid treatments, strong economic data

Stocks globally rebounded, recouping their last week's losses, led by Developed Markets which widened their massive outperformances to Emerging Markets in 2021 (YTD: +19.2% vs. -5.5%). The stocks rebound can be attributed to waning investor fears on the new Omicron variant, which had elevated market volatility in recent weeks, as further evidences emerged of the variant's mild symptoms amid its very rapid spread. Encouraging news also came from Moderna, whose preliminary data showed its booster shot dramatically increase the antibodies capable of targeting the variant, and FDA granting emergency authorization to Pfizer and Merck for their new pills to treat Covid. President Biden also stated there is no plan for lockdowns in response to the latest wave of Covid cases. US economic data also surprised on the upside as Durable Goods Order grew 2.5% MoM in November, beating expectations (cons.: 1.6%), QoQ GDP Growth for Q3 was revised up to 2.3% (from 2.1%), while CB Consumer Confidence Index of 115.8 was better than expected (cons.: 110.8). Inflation also appears to have peaked as US PCE Price Index rose 0.6% MoM in November (October: 0.7%). Meanwhile, other US economic data such as Initial Jobless Claims and Personal Income and Spending Growth came as expected. In Europe, stocks also climbed higher this week as the ECB signalled any shift from its current easy monetary policy would be slow so as not to hamper economic growth and that it expects inflation to fall next year.

In Indonesia, JCI fell slightly (-0.59%) as foreign selling was sustained this week albeit only modestly (-Rp774Bn) while the bond market recorded modest inflows (+Rp680Bn). Stocks in the transportation, technology, healthcare, and infrastructure sectors corrected the most, while consumer cyclicals, energy, and basic materials stocks were up significantly this week.

The Week Ahead – China NBS Manufacturing & Non-Manufacturing PMIs

Economic data releases and event calendar to focus in the week ahead during the year-end holidays is very limited. This includes US Pending Home Sales (Wed 22:00), US Initial Jobless Claims (Thu 20:30), China NBS Manufacturing and Non Manufacturing PMIs (Fri 08:00)

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. Global fund flows data showed that equity investors were returning to EM in 2021.

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 XIML (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	35,950.56	1.65%	17.46%
S&P 500	4,725.79	2.28%	25.82%
Nasdaq	15,653.38	3.19%	21.45%
FTSE 100	7,372.10	1.41%	14.11%
DAX	15,756.31	1.45%	14.85%
Nikkei 225	28,782.59	0.83%	4.88%
Hang Seng	23,223.76	0.13%	-14.72%
Shanghai	3,618.05	-0.39%	4.17%
MSCI World	3,206.85	2.14%	19.21%
MSCI Emerging Markets	1,220.55	0.35%	-5.48%

JCI Sector Indices	Last	1W	YTD
Consumer Cyclicals	902.50	2.61%	21.49%
Energy	1,126.89	1.73%	43.95%
Basic Materials	1,217.60	0.81%	-1.24%
Consumer Non-Cyclicals	662.79	-0.09%	-16.21%
JCI	6,562.90	-0.59%	9.76%
Industrials	1,036.36	-0.64%	11.57%
Financials	1,540.03	-0.88%	22.18%
Property & Real Estate	775.50	-0.99%	-18.85%
Infrastructures	948.64	-1.79%	10.00%
Healthcare	1,406.00	-2.28%	7.30%
Technology	8,520.38	-2.38%	665.00%
Transportation	1,622.79	-4.14%	70.24%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.69	5 bps	57 bps
UST 10Y Yield	1.49	8 bps	58 bps
Ind GB 10Y Yield	6.34	-10 bps	46 bps
USDIDR	14,197	-172	147
CDS Indo 5Y	75.73	-0.77	8.22

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-773.85Bn	36.41Tn
Government Bond Market (Rp)	680.00Bn	-78.92Tn

Commodities	Last	1W	YTD
WTI	73.79	4.98%	52.08%
Brent	76.14	3.56%	46.99%
CPO (Malaysia)	4,636.00	3.85%	62.15%
Coal (New Castle)	169.40	0.53%	110.43%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	993.23	-0.84%	1.91%
XIIT	IDX30	528.02	-0.81%	1.85%
XIJI	JII	598.07	-0.14%	-6.53%
XISI	SMInfra18	329.32	-1.25%	-0.80%
XISR	SriKehati	380.17	-1.21%	0.23%
XIHD	IDXHIDIV20	493.37	-0.53%	7.40%
XIPI	Pefindo I-Grade	178.20	-1.34%	3.32%
XIML	MSCI Indo Large Cap	255.48	-1.58%	0.65%
XIID	IDX30	515.24	-0.83%	2.31%
XIFE	FTSE ESG Indonesia	102.20	-1.34%	-
XIIC	Consumer Related	972.14	-0.62%	-6.01%
XIIF	Rate Sensitive	529.89	-0.86%	-9.98%
XISC	BUMN Stocks	680.26	-1.34%	-10.89%
XISB	Sovereign Bonds	450.94	0.37%	1.08%

Conventional	Last	1W	YTD	
RDMP	Equity	976.43	-0.15%	-7.64%
RPCF	Balanced	2,886.08	-0.10%	-3.33%
RDPU 2	Money Market	1,336.43	0.08%	4.04%

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	2022F	2022F	
1 RLQ45	27.1	49.5	12.6	10.5	0.19	14.9	2.7	1.14
2 XIIT	29.9	51.7	7.0	11.1	0.21	15.1	2.8	1.07
3 XISC	18.9	43.8	15.1	17.1	5.09	13.2	3.0	1.33
4 XISR	28.3	60.2	6.4	4.8	0.30	14.7	2.8	1.11
5 XIIF	13.3	54.1	30.5	0.0	2.20	16.8	2.3	1.29
6 XISI	53.6	16.8	17.6	11.7	0.29	13.3	3.3	1.04
7 XIPI	21.5	61.2	12.6	4.4	0.26	16.9	2.4	1.18
8 XIIC	32.5	41.1	18.8	4.6	3.05	17.4	2.4	1.09
9 XIHD	29.4	52.7	3.9	13.3	0.67	14.2	3.1	1.12
10 XIJI	48.7	0.9	29.5	20.3	0.50	16.7	2.5	1.10
11 XIIML	19.9	76.1	3.3	0.0	0.68	15.5	2.8	1.11
12 XIID	29.9	51.8	7.0	11.1	0.15	15.1	2.8	1.07
13 XIFE	31.2	56.9	5.0	6.6	0.24	14.3	2.9	1.14
Index								
IDX80	32.1	38.9	17.4	11.6		16.4	2.7	
JCI	31.3	41.4	16.9	10.5		18.2	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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