

Global equities pricing-in vaccine hopes and future economic recoveries

Selamat Hari Raya Idul Fitri to everyone! Global stock markets performed well in the past week on optimism over reopening of economies and positive news on progress of coronavirus vaccine development. Moderna announced its vaccine candidate has produced antibodies in 8 out of 45 volunteers in its first stage clinical trial while UK pharmaceutical giant AstraZeneca, which has a license for global development and distribution of Oxford University's vaccine (known as AZD 1222), has secured first agreements with UK and US governments to supply 100m and 300m doses, respectively, with first deliveries to begin in September 2020. On the economic front, US jobless claims of 2.4m brought the country's nine-week total job losses to 39m while Markit Composite PMI of 36.4 in May was an improvement from 27.0 in April and ahead of expectation. Meanwhile, European stocks jumped on news that Germany is joining major EU countries in supporting a proposed recovery fund for the region. However, China and HK markets dropped on rising US-China tensions as the US Senate passed a bill that could lead to delisting of US-listed China ADRs while China is poised to impose a new national security law on HK, which could draw more protests.

In the local market, JCI was up only 0.85% during the holiday-shortened week as foreigners were net sellers with outflow of Rp693Bn (of which BBCA: Rp773Bn). However, bank sector index gained as all four SOE bank stocks were up sharply, as also cyclical stocks in auto, construction, property, infrastructure and mining sectors while the more defensive consumer stocks faced significant corrections.

The Week Ahead – ECB President and Fed Chair speeches, China PMI data

The key economic calendar to watch out for next week includes US New Home Sales (Tue 21:00), ECB President Lagarde Speech (Wed 14:30), US Jobless Claims & Durable Goods Orders (Thu 19:30), US Personal Income/Spending (Fri 19:30), Fed Chair Powell Speech (Fri 22:00), China Manufacturing & Non Manufacturing PMI (Sun 08:00). Meanwhile, BI decided to hold rate steady at 4.5% this week.

Investment Conclusion

Equity outlook globally has improved and stock markets' volatility decreasing as coronavirus infections are slowing and economies around the world reopening. Indonesia's coronavirus outbreak is still in an early stage although its economic fallout is starting to show. However, we believe the risk is already largely priced in as JCI valuation has fallen to 12x trailing P/E vs. 20-yr mean of 13.7x. We view market valuation is attractive, regardless of GDP and earnings growth in 2020, as Indonesian government plans to gradually reopen economy starting in June although uncertainty on banking sector is high given the extent of NPLs to be restructured (c.20% of banking system loans). We believe a sustainable market rebound will need catalysts of a drug or vaccine discovery, signs of coronavirus infections slowing, and more widespread testing to give confidence to people and businesses to fully resume economic activities in Indonesia.

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 large overweight positions in BBCA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from any market rebound, our pick is our ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among most impacted by foreign selling and thus should benefit from any 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, and thus are lacking defensive constituents such as BBCA and consumer stocks and are viewed as more risky at current market condition. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 10.7x and 10.2x, respectively, lower than valuation of our broad-based ETFs RLQ45 and XIIT at 14.1x and 13.9x, respectively, and XIIML (at 14x), and 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	24,465.16	3.29%	-14.27%
S&P 500	2,955.45	3.20%	-8.52%
Nasdaq	9,324.59	3.44%	3.92%
FTSE 100	5,993.28	3.34%	-20.54%
DAX	11,073.87	5.82%	-16.42%
Nikkei 225	20,388.16	1.75%	-13.82%
Hang Seng	22,930.14	-3.64%	-18.66%
Shanghai	2,813.76	-1.91%	-7.75%
EIDO	15.74	0.70%	-38.66%

JCI Sector Indices	Last	1W	YTD
JAKMIND	752.30	5.12%	-38.53%
JAKFIN	886.81	3.48%	-34.54%
JAKINFR	860.37	1.66%	-24.37%
JAKMINE	1,239.10	1.60%	-19.99%
JAKAGRI	967.75	1.18%	-36.52%
JCI	4,545.95	0.85%	-27.84%
JAKBIND	681.05	0.14%	-30.37%
JAKTRAD	587.12	0.10%	-23.73%
JAKPROP	319.65	-0.21%	-36.56%
JAKCONS	1,821.77	-3.57%	-11.25%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.17	1 bps	-140 bps
UST 10Y Yield	0.66	-3 bps	-126 bps
Ind GB 10Y Yield	7.68	-12 bps	61 bps
USDIDR	14,680	(180)	814
CDS Indo 5Y	180.17	(25.74)	117.93

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-693 Bn	-28.61 Tn
Government Bond Market(Rp)	620 Bn	-138.1 Tn

Commodities	Last	1W	YTD
WTI	33.25	12.98%	-45.55%
Brent	35.13	8.09%	-46.77%
CPO (Malaysia)	2,207.00	5.65%	-26.09%
Coal (New Castle)	51.95	1.96%	-23.26%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	707.05	2.34%	-32.45%
XIIT	IDX30	383.41	2.40%	-32.23%
XIJI	JII	513.65	0.12%	-27.15%
XISI	SMInfra18	224.31	2.72%	-34.44%
XISR	SriKehati	275.47	2.00%	-32.32%
XIHD	IDXHIDIV20	340.07	3.46%	-32.52%
XIPI	Pefindo I-Grade	119.78	3.59%	-33.24%
XIIML	MSCI Indo Large Cap	189.35	2.25%	-
XIIC	Consumer Related	814.57	0.12%	-28.13%
XIIF	Rate Sensitive	374.11	3.55%	-41.00%
XISC	BUMN Stocks	435.67	4.01%	-39.65%
XISB	Sovereign Bonds	400.49	1.58%	-2.71%
<i>Conventional</i>				
RDMP	Equity	785.46	-1.54%	-32.61%
RPCF	Balanced	2,233.70	-0.34%	-25.03%
RDP2	Money Market	1,246.25	0.14%	1.90%

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. Cyclical	Commodities	Cash	2020F	2019
1 RLQ45	34.9	43.7	10.9	9.8	0.6	14.1	3.9
2 XIIT	32.8	46.8	10.0	10.0	0.5	13.9	4.0
3 XISC	20.9	31.1	23.7	12.0	12.3	10.2	5.6
4 XISR	34.4	58.5	2.7	2.4	1.9	13.3	3.9
5 XIIF	14.9	49.4	25.7	0.0	10.0	13.2	3.8
6 XISI	46.1	17.4	17.3	13.9	5.3	10.7	5.1
7 XIPI	25.8	55.6	5.4	12.7	0.5	14.1	3.2
8 XIIC	44.6	29.2	8.7	2.2	15.3	14.2	3.9
9 XIHD	40.6	42.5	6.8	9.6	0.5	13.0	4.5
10 XIJI	57.4	10.6	9.7	22.1	0.2	16.0	3.7
11 XIIML	33.3	58.0	5.7	2.5	0.5	14.0	4.1
Index							
IDX80	33.2	36.4	15.7	14.7	0.0	12.2	2.7
JCI	35.8	33.4	23.3	7.4	0.0	12.9	2.4

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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