

**Tech sell-off continued amid rising US-China tensions, vaccine trial pause**

US stocks fell further from record highs as tech sell-off continued into second week amid negative sentiment from rising US-China tensions, a lack of progress in Congress on new fiscal stimulus, vaccine trial pause and a stall in the decline of jobless claims. The tech sector is sensitive to rising US-China tensions as US government considers blacklisting China's semiconductor manufacturer SMIC. Meanwhile, European markets rebounded on better industrial production data despite no announcement of a new stimulus from ECB and renewed fears of a hard Brexit. AstraZeneca announced a pause of its Covid vaccine trials due to unexplained illness in one of the trials earlier in the week although by weekend the company stated it will resume the trials. US initial jobless claims of 884k was unchanged from prior week, thus defying consensus expectation for a decline. On a more positive note, US core inflation picked up to 1.7% YoY in August vs. consensus expectation of 1.6%.

In Indonesia, the JCI fell sharply by 4.26% this week as the Governor of Jakarta announced a plan to reimpose large-scale mobility restrictions to stem rising Covid new infections as foreign investors continued exiting the stock market (net outflow of Rp4.5Tn). Key cyclical stocks in banking, auto, cement, property, construction, and toll road sectors were among the hardest hit by the sell-offs while the more defensive consumer and telecom sectors and also mining stocks were the least impacted by the market sell-offs.

**The Week Ahead – Indonesia Trade Balance, BI Meeting, Fed Rate Decision**

The key economic calendar to watch out next week are EU Industrial Production (Mon 16:00), China Retail Sales & Industrial Production (Tue 09:00), Indonesia Trade Balance (Tue 11:00), US Industrial Production (Tue 20:15), US Retail Sales (Wed 19:30), Fed Interest Rate Decision and FOMC Economic Projections (Thu 01:00), Indonesia 2W / 4W Automotive Sales (Thu 10:30/16:30), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims & Housing Starts (Thu 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. However, given last week's decision to reimpose mobility restrictions in Greater Jakarta region, which will have a negative impact on economic growth and equity earnings, we return to our base-case 2020 JCI target of 5,300 (bullish case target is 5,600).

**Recommendation**

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our satellite ETFs XISR (Sri Kehati) and XIPI (Pefindo I-Grade), both of which have overweight positions in BBBCA, 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 BBBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBBCA 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 17.0x and 16.4x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 18.7x), XIIT (at 18.9x), and XIIML (at 19.1x), 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	27,665.64	-1.66%	-3.06%
S&P 500	3,340.97	-2.51%	3.41%
Nasdaq	10,853.54	-4.06%	20.96%
FTSE 100	6,032.09	4.02%	-20.02%
DAX	13,202.84	2.80%	-0.35%
Nikkei 225	23,406.49	0.87%	-1.06%
Hang Seng	24,503.31	-0.78%	-13.08%
Shanghai	3,260.35	-2.83%	6.89%
EIDO	17.81	-8.10%	-30.59%

JCI Sector Indices	Last	1W	YTD
JAKPROP	308.56	4.46%	-38.76%
JAKCONS	1,908.91	-2.29%	-7.00%
JAKTRAD	618.07	-2.40%	-19.71%
JAKINFR	823.40	-3.41%	-27.62%
JAKMINE	1,370.92	-3.74%	-11.48%
<b>JCI</b>	<b>5,016.71</b>	<b>-4.26%</b>	<b>-20.36%</b>
JAKBIND	700.63	-4.31%	-28.37%
JAKAGRI	1,153.47	-6.57%	-24.34%
JAKFIN	1,109.69	-6.65%	-18.08%
JAKMIND	838.89	-7.26%	-31.46%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.13	-1 bps	-144 bps
UST 10Y Yield	0.67	-5 bps	-125 bps
Ind GB 10Y Yield	6.97	4 bps	-9 bps
USDIDR	14,890	140	1,024
CDS Indo 5Y	93.09	-3.83	30.85

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-4.56 Tn	-52.50 Tn
Government Bond Market (Rp)	-464 Bn	-118.04 Tn

Commodities	Last	1W	YTD
WTI	37.39	-5.98%	-38.77%
Brent	39.83	-6.63%	-39.65%
CPO (Malaysia)	2,803.00	-1.13%	-6.13%
Coal (New Castle)	50.75	3.57%	-25.04%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	813.37	-7.46%	-22.29%
XIIT	IDX30	441.36	-7.41%	-21.99%
XIJI	JII	545.64	-3.78%	-22.61%
XISI	SMInfra18	257.05	-5.97%	-24.88%
XISR	Sri Kehati	325.96	-6.01%	-19.91%
XIHD	IDXHIDIV20	393.96	-5.30%	-21.83%
XIPI	Pefindo I-Grade	137.44	-6.12%	-23.40%
XIIML	MSCI Indo Large Cap	222.61	-6.00%	-
XIID	IDX30	429.64	-5.58%	-
XIIC	Consumer Related	908.10	-5.18%	-19.88%
XIIF	Rate Sensitive	433.81	-8.46%	-31.58%
XISC	BUMN Stocks	501.29	-10.23%	-30.56%
XISB	Sovereign Bonds	419.49	0.02%	1.90%
<i>Conventional</i>				
RDMP	Equity	889.57	-5.94%	-23.68%
RPCF	Balanced	2,495.25	-4.82%	-16.26%
RDPU2	Money Market	1,261.99	0.09%	3.19%

**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
<b>1 RLQ45</b>	<b>31.1</b>	<b>47.8</b>	<b>12.8</b>	<b>7.7</b>	<b>0.5</b>	<b>18.7</b>	<b>3.5</b>
2 XIIT	30.6	51.3	10.9	6.8	0.4	18.9	3.5
<b>3 XISC</b>	<b>21.6</b>	<b>38.6</b>	<b>22.6</b>	<b>16.1</b>	<b>1.1</b>	<b>16.4</b>	<b>4.7</b>
4 XISR	29.2	61.8	3.9	4.8	0.3	19.8	3.2
<b>5 XIIF</b>	<b>12.6</b>	<b>57.0</b>	<b>29.9</b>	<b>0.0</b>	<b>0.5</b>	<b>18.5</b>	<b>3.2</b>
6 XISI	45.9	15.7	22.5	15.5	0.4	17.0	4.3
<b>7 XIPI</b>	<b>21.3</b>	<b>62.3</b>	<b>14.8</b>	<b>1.3</b>	<b>0.3</b>	<b>21.4</b>	<b>2.7</b>
8 XIIC	47.4	40.8	10.9	0.0	0.9	19.6	3.4
<b>9 XIHD</b>	<b>35.2</b>	<b>47.8</b>	<b>6.3</b>	<b>10.3</b>	<b>0.4</b>	<b>18.8</b>	<b>3.8</b>
10 XIJI	51.0	11.3	24.2	12.9	0.6	19.6	3.2
<b>11 XIIML</b>	<b>24.9</b>	<b>66.9</b>	<b>4.1</b>	<b>3.7</b>	<b>0.3</b>	<b>19.1</b>	<b>3.6</b>
12 XIID	30.7	51.4	10.9	6.8	0.2	18.9	3.5
<b>Index</b>							
<b>IDX80</b>	<b>31.9</b>	<b>38.8</b>	<b>21.1</b>	<b>8.2</b>		<b>16.6</b>	<b>3.3</b>
JCI	32.3	38.6	21.1	7.9		18.4	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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