

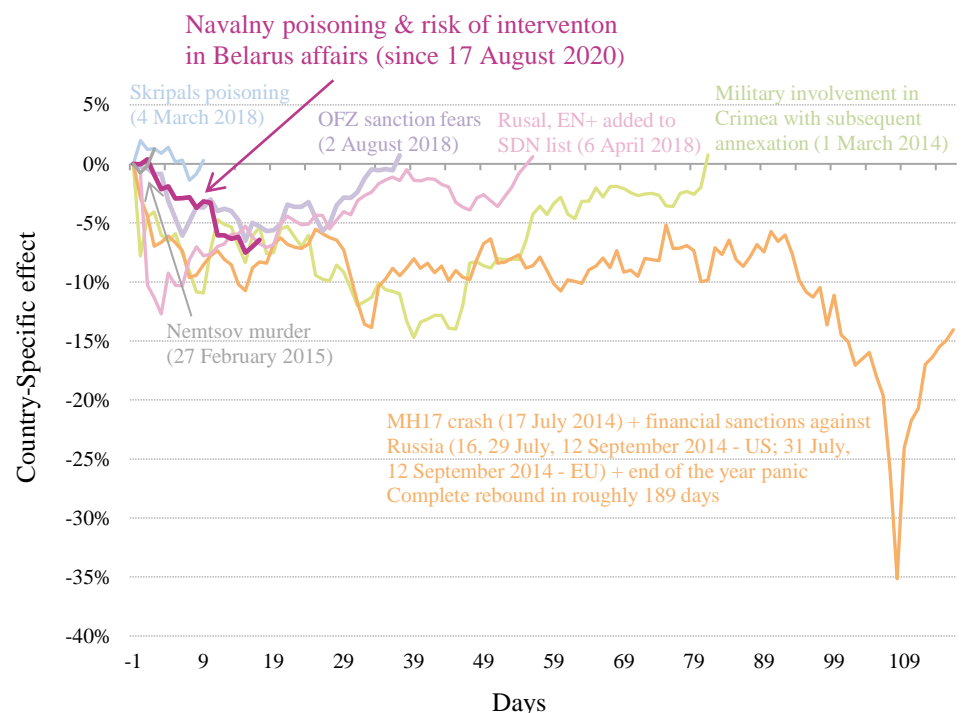
Flash note
11 September 2020‘Navalny’ and ‘Belarus’:
How large can the impact be on Russia
vs. EM performance?

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The Navalny affair and the turmoil in neighbouring Belarus have already caused Russian equities to underperform the wider emerging markets by 643bp. Investors now worry that these events can lead to sanctions against Russia. Is there any material downside left? We believe it is unlikely that further losses could exceed 350bp. How long does it normally take for the Russian market to rebound after such events? A complete rebound looks likely to take less than 60 days in the case that there are no material sanctions. We regard the risk of material sanctions as very small – see pages 4-5 of our recent [white paper](#).

Cumulative Russia-specific effect on excess return of Russia vs. EM after
sanction risk-related events

Note: To calculate the country-specific effect, we constructed an index from the EM sector indices with the structure of the MSCI Russia 10/40 index. For example, we took the MSCI EM Energy index and weighed it at 35%, the MSCI EM Materials index at 35%, etc. Therefore, the excess return due to Russia-specific factors equals the MSCI Russia 10/40 minus the constructed index. The cumulative country-specific effect is demonstrated from the day before the sanctions risk-related event until the effect evaporates. Based on net return figures, in USD terms.

Source: Bloomberg, TKB Investment Partners; September 2020

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Looking at this analysis, the Navalny case is more significant than the poisoning of the Skripals or the murder of Nemtsov. Accordingly, it is fair to say that the cumulative detraction from excess returns should be higher and the time for a full rebound should be longer.

Characteristics	Navalny poisoning	Skripals poisoning	Nemtsov murder
Type of person	Opposition leader	Former spy and his daughter	Opposition leader
Network of supporters in Russia	Large	No	Small
How well-known among world leaders	Very well	Not known	A bit
Case reviewed by OPCW*	Likely to be	Yes	No

*Organisation for the Prohibition of Chemical Weapons

On the other hand, the Navalny case is far less significant than the annexation of Crimea or the downing of MH17, so the cumulative detraction from excess returns and the time for a full rebound should be far smaller compared to these two events.

In this context, potential involvement in Belarus would have a less material impact than the annexation of Crimea as well. We think that a Crimea scenario is unlikely due to the absence of local support in Belarus. It would be fair to conclude that the cumulative detraction is smaller and the time for a complete rebound shorter compared to the events around Crimea and the post Crimea sanctions.

Characteristics	Crimea	Belarus
Local people support of Russia involvement	Yes	No

Therefore, we believe that only a small downside of up to 350bp losses is left due to current geopolitical risks. Navalny and Belarus cases are less worrying than Crimea annexation and the rebound is around the corner.

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