

Russian Equities Weekly

August 31 – September 4, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	-4.1%	-14.6%
MSCI EM index TR in USD	-2.0%	0.3%
Excess return	-2.2%	-14.8%
Due to Russia specific factors*	-2.6%	-1.5%
Due to difference in sector structure*	0.4%	-13.3%
Key commodities**		
Oil	-7.5%	-37.8%
Gold	-1.6%	27.2%
FX		
RUB/USD	-1.8%	-17.7%
RUB/EUR	-0.9%	-22.2%

* See details of methodology in the end of the report

** Energy weight in the MSCI Russia 10/40 is 32%, Gold producers weight in the index is 11% (weights are as at the end of August 2020)

Data as of 4 September 2020

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	15%

Data as of 4 September 2020

TKB Investment Partners (JSC) calculations

Individual investors hit new record level

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging markets (EM) index. The Russian market's relative performance came under pressure from a country-specific factor, namely that US and European officials made several remarks regarding the alleged poisoning of Navalny and the need for new sanctions against Russia.

We believe the **introduction of material sanctions against Russia to be highly unlikely**. Overall, there were over 55 sanction actions against Russia by the US and the EU between March 2014 and July 2020. None of these affected Russia's ability to export commodities and none has been significant. Any material sanctions are likely to have a dramatic boomerang effect on Europe and the US. For more details of our views on this subject, click [here](#).

Main Russian news

Inflation in Russia accelerated in August to 3.6% YoY from 3.4% YoY at the end of July. The acceleration occurred in all three main sectors. Food inflation rose to 4.3% YoY from 4.2%, while non-food inflation rose to 3.4% YoY vs. 3.1% a month earlier. Inflation in the services sector increased to 2.7% YoY from 2.5% in July.

The Moscow Exchange reported the record growth of new individual broker accounts in August. With more than 515 000 people joining last month, **the number of individual investors reached 6.2 million people, a 63% increase from the beginning of the year.** More than 950 000 private investors traded in August, which is nearly three times higher than the usual number of active investors per month. During August, individuals invested more than USD 0.5 billion in Russian stocks. Since the beginning of the year, net investment by Russian individuals into Russian stocks has totalled approximately USD 4 billion. **The rising number of private investors in the Russian equity market has started to become a new supporting force for Russian stocks.**

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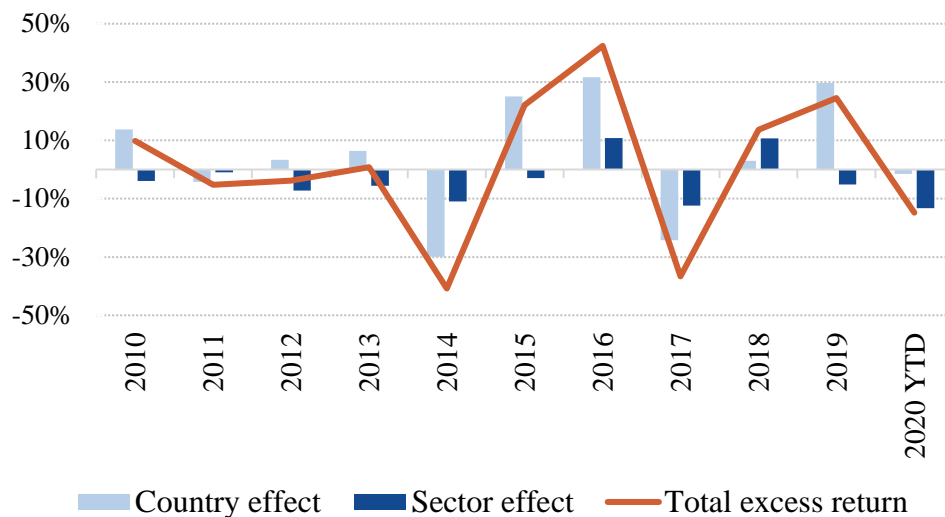
To watch...

Rosstat is due to post industrial production figures for August 2020 later this week.

Sources: Rosstat, Vedomosti, Bloomberg, TKB Investment Partners (JSC); September 2020

Country and sector effect for Russia vs EM excess return

We constructed an index from the EM sector indices with the structure of MSCI Russia 10/40 Index. For example, we took MSCI EM Energy index and weighed it as 35%, MSCI EM Materials index – 35%, etc. Let's call it MSCI EM Russia sector weight (MSCI EM RSW). Excess return due to sector factors is MSCI EM RSW minus MSCI EM. Excess return due to Russia specific factors is MSCI Russia 10/40 minus MSCI EM RSW.



Source: Bloomberg, TKB Investment Partners; data as of 4 September 2020

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