TKB INVESTMENT PARTNERS

Russian Equities Weekly

September 28-October 2, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	-0.3%	-18.1%
MSCI EM index TR in USD	2.2%	-1.2%
Excess return	-2.6%	-16.9%
Due to Russia specific factors*	-1.1%	-1.3%
Due to difference in sector structure*	-1.5%	-15.6%
Key commodities**		
Oil	-7.7%	-42.9%
Gold	2.3%	25.6%
FX		
RUB/USD	-0.1%	-20.7%
RUB/EUR	-0.9%	-24.3%

* See details of methodology in the end of the report
** Energy weight in the MSCI Russia 10/40 is 33%, Gold producers weight in the index is 9% (weights are as at the end of September 2020)
Data as of 2 October 2020
TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	16%

Data as of 2 October 2020
TKB Investment Partners (JSC) calculations

Market follows oil drop

Russian equity market dynamics

Last week, Russian equities underperformed the broader emerging markets (EM) index. The Russian market's relatively poor performance can be explained by the fact that it came under pressure from both country-specific factors and the differences between the Russian and EM index structures:

- **Sector-related factors.** The main hit came from the oil price dropping by 7.7% on the news that US president Donald Trump had tested positive for COVID-19, which increased uncertainty about the US presidential elections on 3 November.
- **Russia-specific factors.** The Duma approved an increase in oil and metals extraction tax rates, which had been submitted by the Ministry of Finance in mid-September.

Main Russian news

The Russian government has submitted a 2021-2023 draft budget to the State Duma. Revenues are expected to amount to RUB 18.8 trillion (~USD 24 billion) in 2021, and then climb to RUB 20.6 trillion (~USD 26 billion) in 2022, and RUB 22.3 trillion (~USD 28 billion) in 2023. The budget deficit is forecast at 2.4% of GDP in 2021, and around 1% of GDP in 2022 and 2023. The main source of financing the deficit will be borrowing.

The draft budget takes into account a slow recovery of the global economy due to the restrictions that are still in place amid the spread of COVID-19. **The government's forecast suggests that the Russian economy will grow by 3.3% in 2021, by 3.4% in 2022 by 3% in 2023. During this period, inflation is expected to be less than 4%.**

The draft must pass three readings in the Duma before it is approved.

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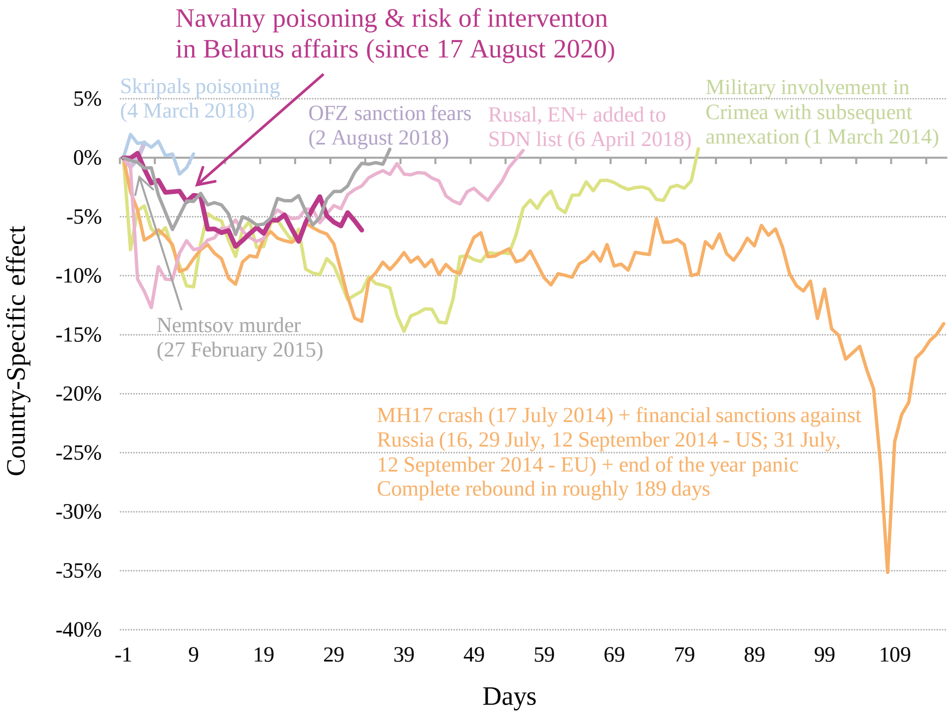
To watch...

Rosstat is due to publish inflation figures for September.

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

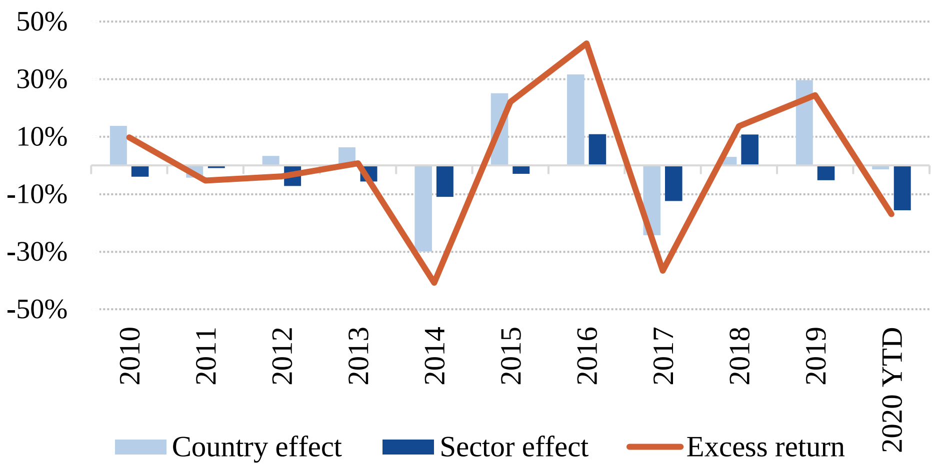
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



Note: 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

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 2 October 2020

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