TKB INVESTMENT PARTNERS

Russian Equities Weekly

October 26–30, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	-7.8%	-23.0%
MSCI EM index TR in USD	-2.9%	0.9%
Excess return	-4.9%	-23.8%
Due to Russia specific factors*	-3.1%	-4.8%
Due to difference in sector structure*	-1.8%	-19.1%
Key commodities**		
Oil	-10.2%	-44.5%
Gold	-1.1%	24.2%
FX		
RUB/USD	-4.0%	-21.9%
RUB/EUR	-2.7%	-25.0%

* 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 30 October 2020
TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	18%

Data as of 30 October 2020
TKB Investment Partners (JSC) calculations

Lagging the broader emerging markets

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging markets (EM) index. This was due to the impact from both Russia-specific factors and a difference in sector structures:

- Russia-specific factors: International investors’ concerns over falling oil prices and sanctions **triggered outflows from Russian government bonds**. That in turn resulted in **pressure on the rouble exchange rate**.
- Difference in sector structures: **Overweight in the energy sector was the key detractor from the relative performance.** This was mainly due to oil prices falling by 10%. **Overweight in materials sector led to negative contribution as well**. A fall in gold prices put pressure on index heavyweights, gold producers Polyus and Polymetal, whose share prices contracted by 10% and 7% respectively, in USD terms.

Main Russian news

The Minister of Finance, Anton Siluanov, claimed that the National Welfare Fund's (NWF) reserves are large enough to finance the budget for three years should oil prices hover at around USD 20/bbl level. As of 1 October 2020, the reserves totalled more than USD 172 billion or 12.1% of GDP, including liquid assets of around USD 117 billion or 8.2% GDP. Earlier in October, President Putin passed a law which softens the Budget Rule for 2021. The legislation supports the use of the NWF to cover the budget deficit and finance the anti-crisis measures needed because of Covid-19. **This will allow the government to increase its budget spending by around RUB 1 trillion (USD 12 billion)**.

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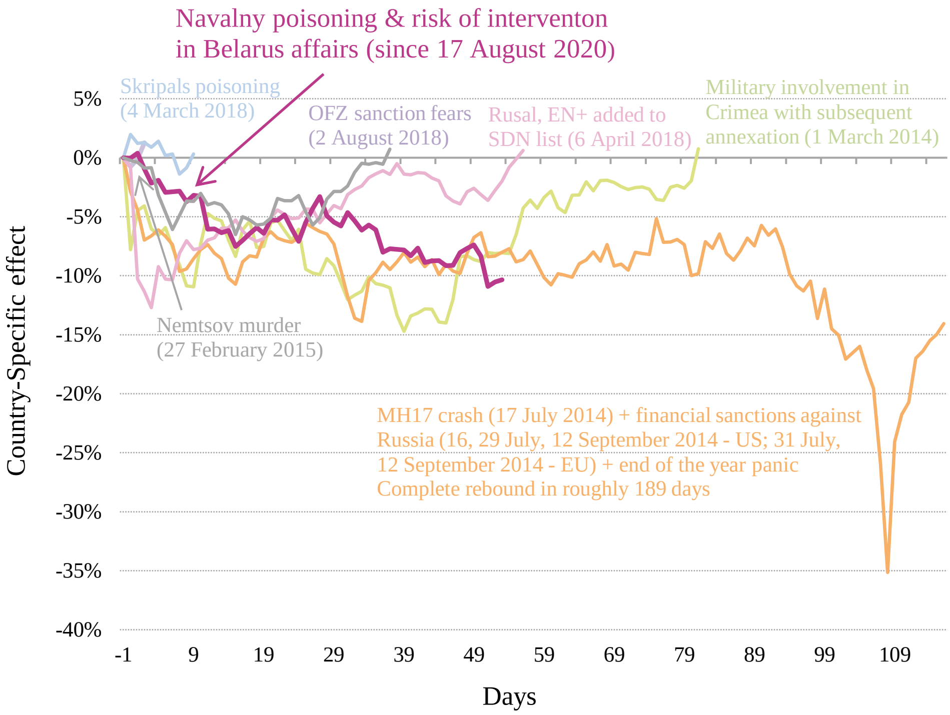
To watch...

Rosstat is due to publish inflation figures for October 2020 later this week.

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

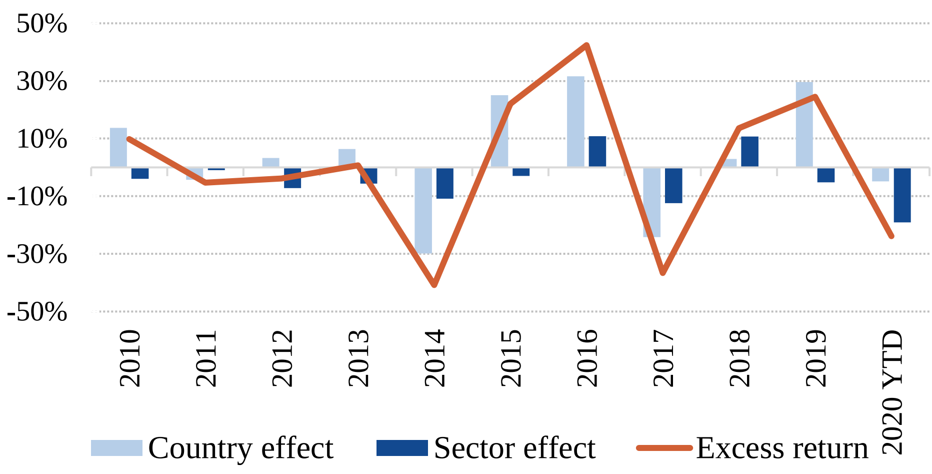
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; November 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 30 October 2020

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