

Russian Equities Weekly

November 9 - 13, 2020

	Week	YTD
MSCI Russia 10/40 TR in USD	2.7%	-13.3%
MSCI EM index TR in USD	1.0%	8.7%
Excess return	1.6%	-21.9%
Due to Russia specific factors*	-0.6%	-4.0%
Due to difference in sector structure*	2.2%	-17.9%
Key commodities**		
Oil	8.1%	-36.8%
Gold	-2.6%	24.8%
FX		
RUB/USD	0.3%	-19.7%
RUB/EUR	0.0%	-24.3%

* 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 9% (weights are as at the end of October 2020)

Data as of 13 November 2020

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	13% ¹

Data as of 13 November 2020

TKB Investment Partners (JSC) calculations

Leading the broader emerging markets

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging markets (EM) index mostly thanks to the difference in the sector structure. The Russian index's overweight in the energy sector supported the market as oil prices rose by 8% on news of the high efficacy rate revealed in late-stage trials of the Pfizer COVID vaccine. The EM consumer discretionary sector declining by 5% also contributed to the Russian market's relative performance.

¹ We have updated upside calculation – now it does not include forecast for 2020.

Main Russian news

According to preliminary results from Rosstat, **Russian GDP fell by 3.6% YoY in the third quarter of 2020**. In the previous quarter, GDP had dropped by 8% YoY. Rosstat noted the improvement in the agricultural sector, which rose by 2.7%. The biggest decline occurred in the passenger turnover (-44.7%) and public catering (-20.1%) segments.

The Russian Duma approved an increase in the personal income tax rate to 15% from the current 13%. This will affect people on incomes above RUB 5 million a year (~USD 65 000) including income from dividends, securities operations and wages. According to the government, **the move could boost the budget by about RUB 60 billion (USD 0.8 billion) in 2021, RUB 64 billion (USD 0.8 billion) in 2022 and approximately RUB 69 billion (USD 0.9 billion) in 2023**. The funds from the tax increase will be used for the treatment of children with rare diseases.

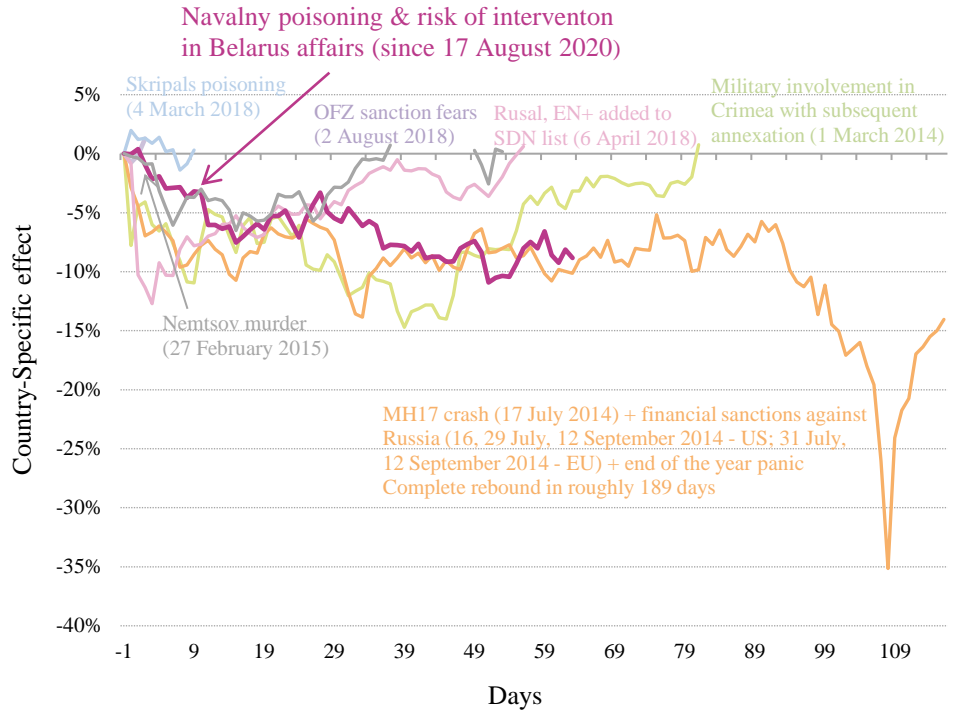
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To watch...

Rosstat is due to publish some key macroeconomic figures, including industrial production for October.

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

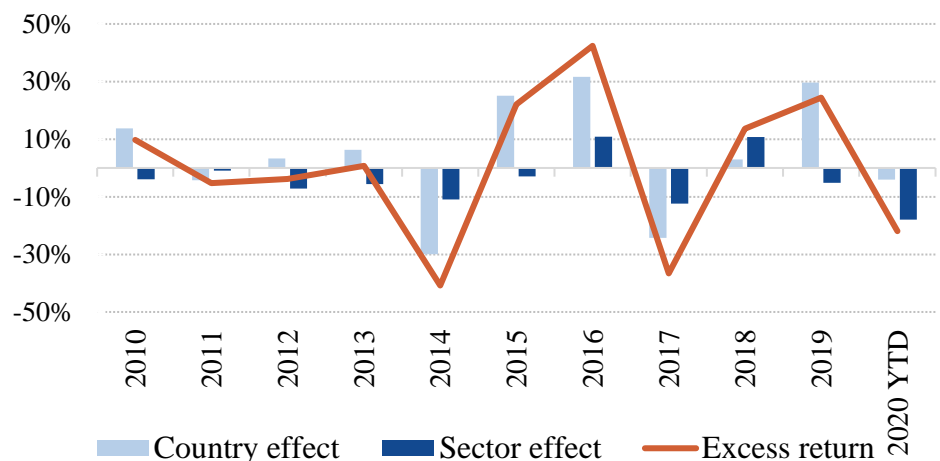
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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 13 November 2020

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