TKB INVESTMENT PARTNERS

Russian Equities Weekly

January 18 – 22, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	-3.7%	0.5%
MSCI EM index TR in USD	2.6%	7.9%
Excess return	-6.2%	-7.3%
Due to Russia specific factors*	-3.1%	-2.5%
Due to difference in sector structure*	-3.1%	-4.9%
Key commodities**		
Oil	0.5%	7.0%
Gold	0.7%	-1.8%
FX		
RUB/USD	-2.4%	-1.7%
RUB/EUR	-3.5%	-1.8%

* See details of methodology at the end of the report
** Energy weight in the MSCI Russia 10/40 is 32%; gold producers' weight in the index is 9% (as at the end of December 2020)
Data as of 22 January 2021
TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	1%

Data as of 22 January 2021
TKB Investment Partners (JSC) calculations

Foreign investors show appetite for Russian debt

Russian equity market dynamics

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

- Russia-specific factors: Equity market investors' fears of sanctions in relation to the Navalny case continued.
- Difference in sector structures: The overweight in the energy sector put pressure on the Russian equity market, as the sector corrected after previous growth. In addition, the EM consumer discretionary sector rising by 8% had a negative impact on the Russian market's relative performance. The sector's growth mainly stemmed from the 6% rise in the share price of one of the EM index heavyweights, Alibaba, after the company's CEO appeared in public for the first time since October.

Main Russian news

Foreign investors are buying Russian bonds at a record rate. Last week, non-residents invested USD 170 million, which brings the total to USD 320 million since the beginning of the year. This is the highest weekly amount of inflows since February 2019. **The net inflow into Russian bonds continues for the 28th week straight. During this period, non-residents have invested around USD 2.6 billion**. That non-residents are buying Russian debt securities, despite the higher political risks, can be explained by a shortage of high yield but relatively safe bonds on the global market.

Eurobond placements during last few weeks confirm the rising interest from foreign investors. For example, Gazprom placed USD 2 billion of Eurobonds last week. The demand was more than double the offered volume. About 32% was bought by European investors, US investors purchased 23%, investors from Asia, Middle East and North Africa bought 19% and about 4% was acquired by UK investors. In the preceding days, MKB and Sovcombank also had successful Eurobond placements, receiving EUR 600 million and USD 300 million, respectively.

Russia's budget deficit in 2020 was the equivalent of 3.8% of GDP or RUB 4.1 trillion (USD 54 billion). This was better than had been expected, thanks to stronger inflows of non-oil and gas revenues, according to the Minister of Finance, A. Siluanov. The Ministry had in September forecast a deficit equating to 4.4% of GDP which was in December upgraded to 3.9%. The budget for 2021-2023 is expected to remain in deficit. **The forecast deficit levels for 2021, 2022 and 2023 are 2.4% of GDP, 1% of GDP and 1.1% of GDP, respectively.**

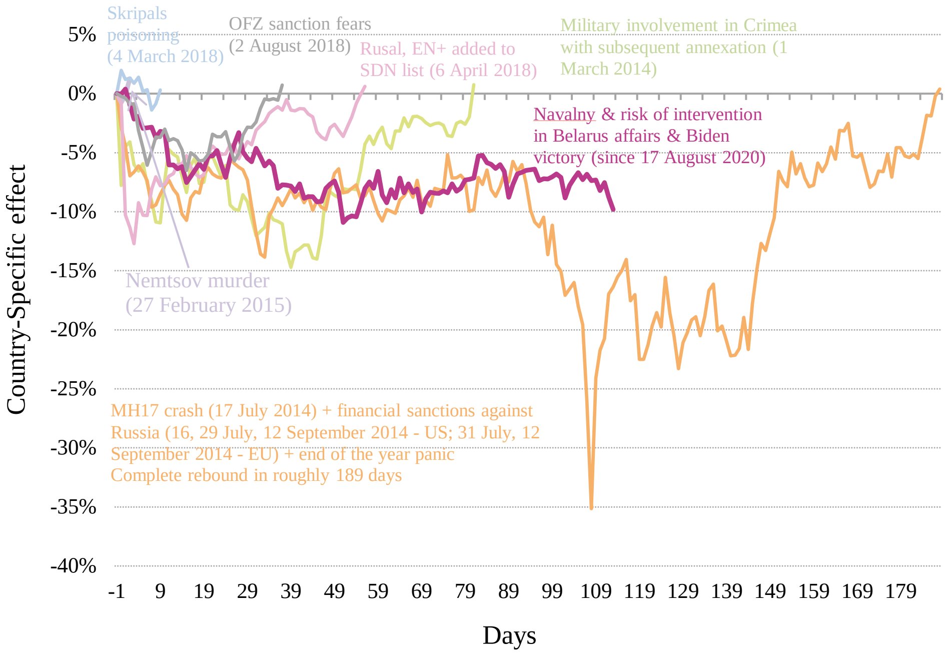
Author: Aleksandra Kuznetsova
Junior Investment Specialist

To watch...

Rosstat is due to publish some key macroeconomic figures for December 2020 later this week.

Sources: CBR, Vedomosti, Bloomberg, TKB Investment Partners (JSC); January 2021

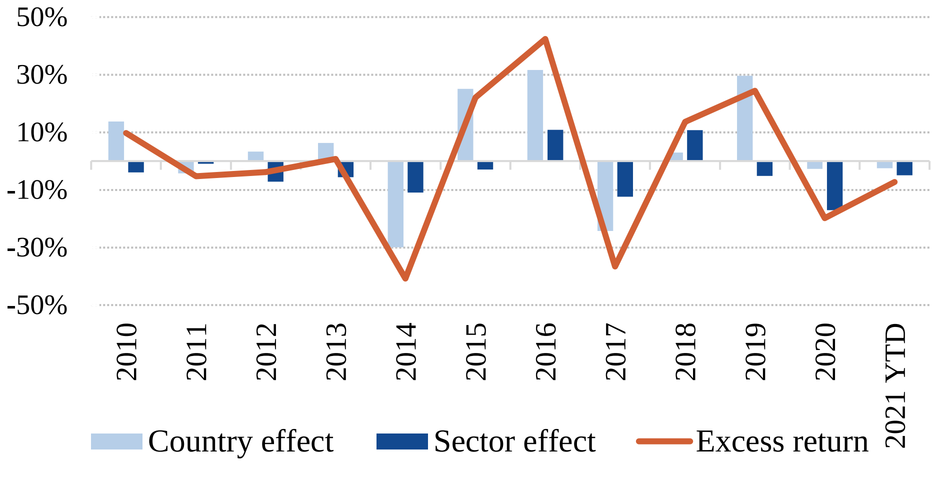
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; January 2021

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 22 January 2021

TKB INVESTMENT PARTNERS

For more information:

TKB Investment Partners (JSC)
69/71, lit. A, Marata Street
Saint Petersburg, 191119, Russia

Tel: +7 812 332 73 32
Fax: +7 812 324 65 57

info@tkbip.ru
www.tkbip.com