

Russian Equities Weekly

February 22 – 26, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	-3.1%	-1.3%
MSCI EM index TR in USD	-6.3%	3.9%
Excess return	3.3%	-5.2%
Due to Russia specific factors*	1.8%	-3.4%
Due to difference in sector structure*	1.5%	-1.7%
Key commodities**		
Oil	3.7%	25.9%
Gold	-2.4%	-7.7%
FX		
RUB/USD	-0.7%	-0.7%
RUB/EUR	0.0%	0.0%

* See details of methodology at the end of the report

** Energy weight in the MSCI Russia 10/40 is 36%; gold producers' weight in the index is 9% (as at the end of January 2021)

Data as of 26 February 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	7%

Data as of 26 February 2021
TKB Investment Partners (JSC) calculations

Russia's government debt remains one of the lowest in the world

Russian equity market dynamics

Last week, the Russian equity market contracted, but by less than the broader emerging market (EM) index. The relative outperformance was due to both Russia-specific factors and differences in the two indices' sector structures.

- Russia-specific factors: Fears of a dramatic impact from EU sanctions did not materialise. The EU imposed sanctions on four Russian officials, which had no effect on business or other economic activities
- Sector-specific factors: The fact that the EM index's consumer discretionary sector¹ declined by 11% contributed to the Russian market's relative outperformance. Additional support came from the overweight in the oil & gas sector amid increasing oil prices, and the overweight in the metals sector on the back of higher prices for metals.

¹ Russian market sector structure implies underweight position in consumer discretionary sector

Main Russian news

Russia's government debt rose by 40% in 2020 from RUB 13.6 trillion (USD 183 billion) to RUB 18.9 trillion (USD 255 billion). This was mainly due to the increase in domestic debt, which grew by 45.4%. At the same time, external debt rose by 3.5% to USD 56.8 billion. At the end of 2020, government debt amounted to 17.8% of GDP. For comparison, in December of 2019 it was at 12.3% of GDP. The Central Bank of Russia believes that such an increase in the national debt during a pandemic poses no threat to the economy. Despite this sharp increase, **Russia's government debt remains one of the lowest in the world.**

The number of retail investors on the Moscow Exchange has reached ten million. More than 1.2 million people have joined the Moscow Exchange since the beginning of the year. Individual investors continue to be a supporting force in driving the Russian stock market. Net inflows from individual Russian investors into the Russian equity market totalled more than USD 4 billion last year and USD 385 million in January 2021. February figures are not available yet.

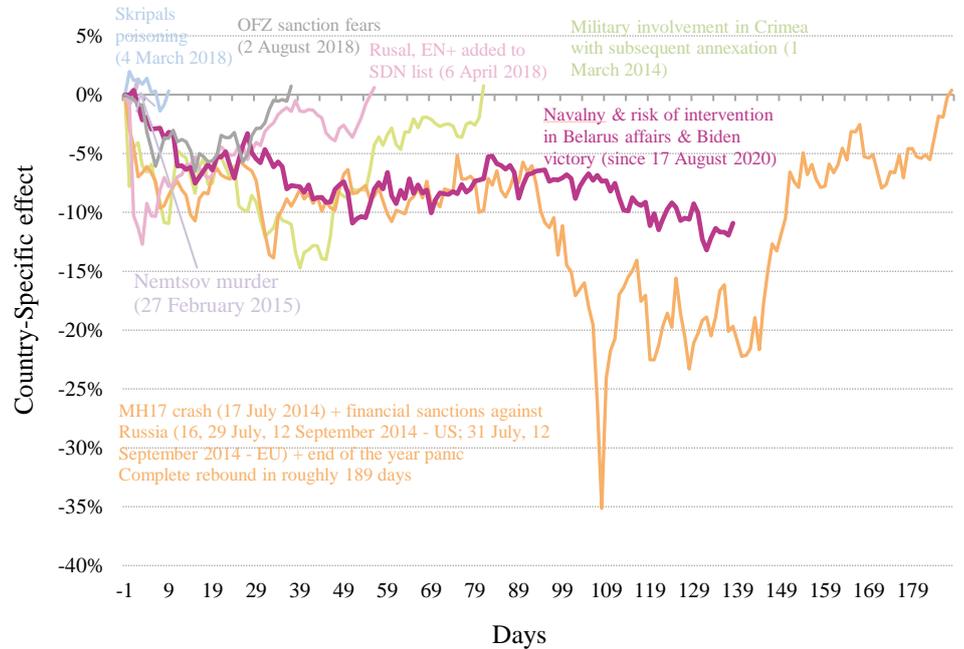
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To watch...

Rosstat is due to publish inflation figures for February 2021.

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

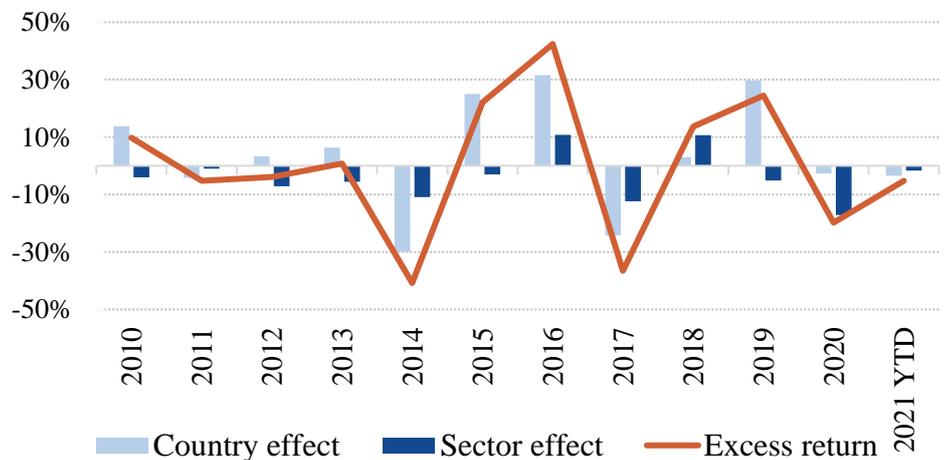
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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; March 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 26 February 2021

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