

Russian Equities Weekly

May 17-21, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	1.5%	10.9%
MSCI EM index TR in USD	1.7%	3.6%
Excess return	-0.2%	7.3%
Due to Russia specific factors*	0.9%	1.5%
Due to difference in sector structure*	-1.2%	5.8%
Key commodities**		
Oil	-3.5%	29.7%
Gold	2.1%	-0.6%
FX		
RUB/USD	0.5%	0.5%
RUB/EUR	0.0%	0.0%

* See details of methodology at the end of the report

** We use Brent Oil and LBMA Gold price data, in USD terms. Energy weight in the MSCI Russia 10/40 is 33%; gold producers' weight in the index is 9% (as at the end of April 2021)

Data as of 21 May 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	7%

Data as of 21 May 2021

TKB Investment Partners (JSC) calculations

Sanctions risk more likely to evaporate

Russian equity market dynamics

Last week, the Russian equity market slightly underperformed the broader emerging market (EM) index, by 0.2%. The relative underperformance was mainly due to the difference in the two indices' sector structures:

- Overweight of the Russian index in the materials sector, which declined on the back of lower metals prices
- Overweight in the energy sector, due to the decline in oil prices amid talks about the potential removal of US sanctions on Iranian oil
- The absence of the consumer discretionary and IT sectors in the Russian index, which rose by 3.2% and 2.7%, respectively, after previous strong underperformance.

Russia-specific factors almost completely offset the negative impact from the sector-specific factors. This was mainly due to increased optimism of investors amid the US decision to waive sanctions on the company in charge of the Nord Stream 2 pipeline.

Main Russian news

The US administration is not going to impose new sanctions on Nord Stream 2 AG – the company in charge of building the Nord Stream 2 gas pipeline. Meanwhile, sanctions are being imposed on 13 Russian vessels and four other companies participating in the project, including the Russian government-owned Marine Rescue Service. In a report to Congress on 19 May, the US State Department said that Nord Stream 2 AG and its CEO Matthias Warnig are engaged in sanctionable activity but **the administration will waive penalties to avoid a confrontation with Germany** and other European Union allies that back the project. As of the end of March, 95% of the pipeline was complete and the project is likely to be fully completed this year. We think the successful launch of the Nord Stream 2 project could a trigger for a further evaporation of sanctions risk from Russian equities prices. Please see further details in [“Russian equities riding the long-term commodities growth trend”](#).

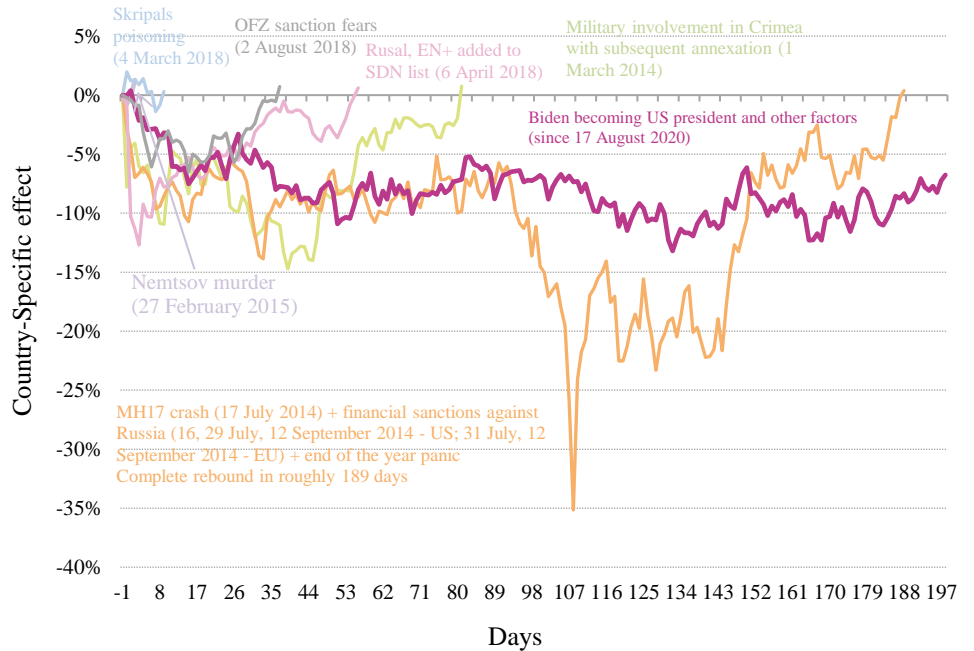
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To watch...

Rosstat is due to publish industrial production figures for April 2021.

Sources: Rosstat, Bloomberg, TKB Investment Partners (JSC); May 2021

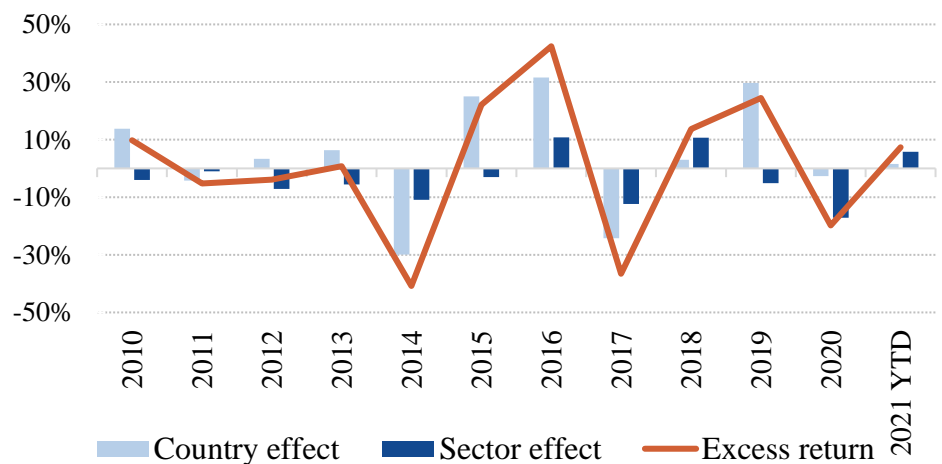
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events



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; May 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 21 May 2021

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