

Russian Equities Weekly

April 26–30, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	-2.7%	3.8%
MSCI EM index TR in USD	-0.4%	4.8%
Excess return	-2.4%	-1.1%
Due to Russia specific factors*	-3.0%	-3.5%
Due to difference in sector structure*	0.6%	2.5%
Key commodities**		
Oil	1.7%	30.0%
Gold	-0.8%	-6.4%
FX		
RUB/USD	-0.6%	-1.7%
RUB/EUR	0.0%	-0.9%

* 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 35%; gold producers' weight in the index is 8% (as at the end of March 2021)

Data as of 30 April 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	8%

Data as of 30 April 2021

TKB Investment Partners (JSC) calculations

Under geopolitical risks pressures

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging market (EM) index by 2.4%. Geopolitical developments put pressure on the Russian market. The European Union parliament passed a resolution to exclude Russia from the SWIFT international online payments system, stop imports of Russian oil and gas and pause the Nord Stream 2 gas pipeline project, among other measures. However, this resolution is nonbinding. In the past, the European Council has ignored the parliament's suggestions for stricter policies against Russia.

Main Russian news

The European Union parliament passed a resolution to take punitive measures against Russia. The reasons given for the move were the escalation of the Russia–Ukraine conflict, the imprisonment of Alexey Navalny and accusations of Russian involvement in an explosion in the Czech Republic in 2014. The resolution proposes that the following measures be implemented should there be any further escalation in Russia–Ukraine tensions:

- New sanctions against ‘Russian oligarchs’ and their families
- Disconnecting Russia from SWIFT payments
- Ending imports of Russian oil and gas.

The resolution also includes a proposal to stop the Nord Stream 2 project and to introduce new sanctions upon everyone allegedly involved in the Navalny case. However, **the resolution is nonbinding and can, in our view, be seen to be more of a symbolic political gesture.** As has happened before, it could well be ignored by the European Council. For example, in 2018, the EU put forward a resolution to stop the Nord Stream 2 project in response to the Kerch Strait incident between Russian and Ukraine vessels. At that time, some 400 km of the pipeline had been laid. Despite the resolution, construction continued and as of the end of March 2021, 2 339 km (95%) of the Nord Stream 2 gas pipeline have been laid. Since the project has been in operation, 400 billion cubic metres of gas have been supplied from Russia to the EU via the Baltic Sea. Moreover, **the EU High Representative, Josep Borrell, stated that the EU cannot introduce the measures stated in the resolution.** And SWIFT payments belong to a private international organisation which is not under the influence of the EU parliament. Finally, the Nord Stream 2 project is run by private European companies and our understanding is that the EU has no right to interfere in its operations.

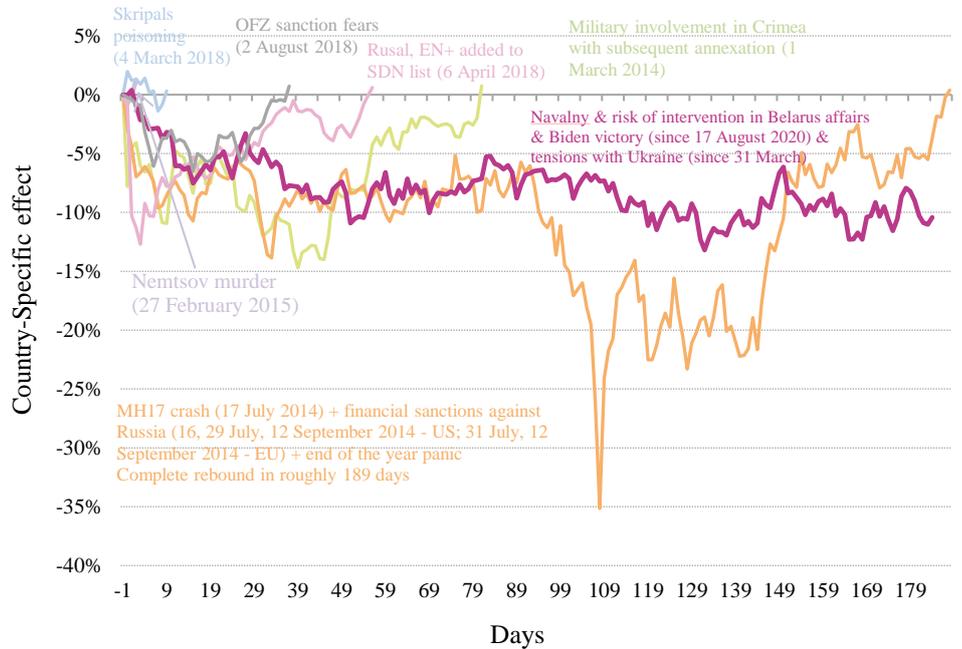
*Author: Aleksandra Kuznetsova
Investment Specialist*

To watch...

Rosstat is due to publish inflation figures for April 2021 later this week.

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

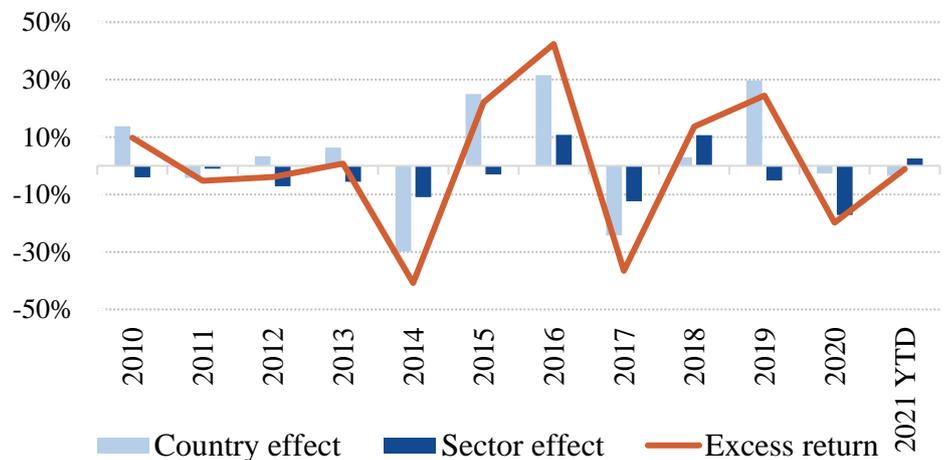
Cumulative Russia-specific effect on excess return of Russia vs. EM after sanction risk-related events



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 30 April 2021

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

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