TKB INVESTMENT PARTNERS

# Russian Equities Weekly
# July 12-16, 2021

| | Week | YTD |
|---|---|---|
| **MSCI Russia 10/40 TR in USD** | -1.1% | 14.8% |
| **MSCI EM index TR in USD** | 1.7% | 5.0% |
| **Excess return** | -2.8% | 9.8% |
| Due to Russia specific factors* | -1.9% | 4.3% |
| Due to difference in sector structure* | -0.9% | 5.5% |
| **MSCI EM HDY index TR in USD**** | 1.3% | 9.3% |
| **Key commodities***** | | |
| Oil | -3.2% | 44.2% |
| Gold | 1.0% | -3.4% |
| **FX** | | |
| RUB/USD | 0.7% | 0.0% |
| RUB/EUR | 0.9% | 2.7% |

* See details of methodology at the end of the report
**MSCI Emerging Markets High Dividend Yield Index
*** We use Brent Oil and LBMA Gold price data, in USD terms. Energy weight in the MSCI Russia 10/40 is 36%; gold producers' weight in the index is 8% (as at the end of June 2021)
Data as of 16 July 2021
TKB Investment Partners (JSC) calculations; Bloomberg

| | Current |
|---|---|
| **Upside/downside to fair price** | 12% |

Data as of 16 July 2021
TKB Investment Partners (JSC) calculations

## Profit-taking trigger market correction

### Russian equity market dynamics

**Last week, the Russian equity market underperformed the broader emerging market (EM) index by 2.8%.** This was due to both a Russia-specific factor, and the difference in the two indices' sector structures.

- Russia-specific factor: Previous outperformance of Russian equities compared to their EM peers triggered profit-taking
- Sector-specific factor: The Russian equity market came under pressure from its overweight in the energy sector, which fell amid a 3.2% decline in oil prices.

## Main Russian news

**OPEC+ agreed to increase oil output by 400 000 barrels a day each month starting from August.** The organisation also agreed to extend its production agreement to the end of 2022 from the previously scheduled April 2022 to leave room to manoeuvre should the global economic recovery come under pressure due to new variants of the coronavirus. Additionally, from May 2022, Russia, Saudi Arabia, the UAE, Kuwait and Iraq will have higher production baselines against which their cuts will be measured. Russia's Energy Minister, Alexander Novak, said Russia will increase its oil production by 100 000 barrels per day each month. By May 2022, it will reach the pre-Covid output level last seen in 2019.

**The Standard & Poor's agency affirmed its credit rating of Russia at BBB- with a stable outlook.** The agency also revised its forecast for Russia's GDP growth in 2021 from 3.3% to 3.7%. **S**&P pointed to continued high level of uncertainty in the country amid the development of the pandemic and geopolitical tensions. At the same time, it noted the faster-than-expected recovery in domestic demand in H1 2021. According to the agency, the economic recovery could be supported the growth of real wages and the recovery of oil production amid easing OPEC+ production restrictions.

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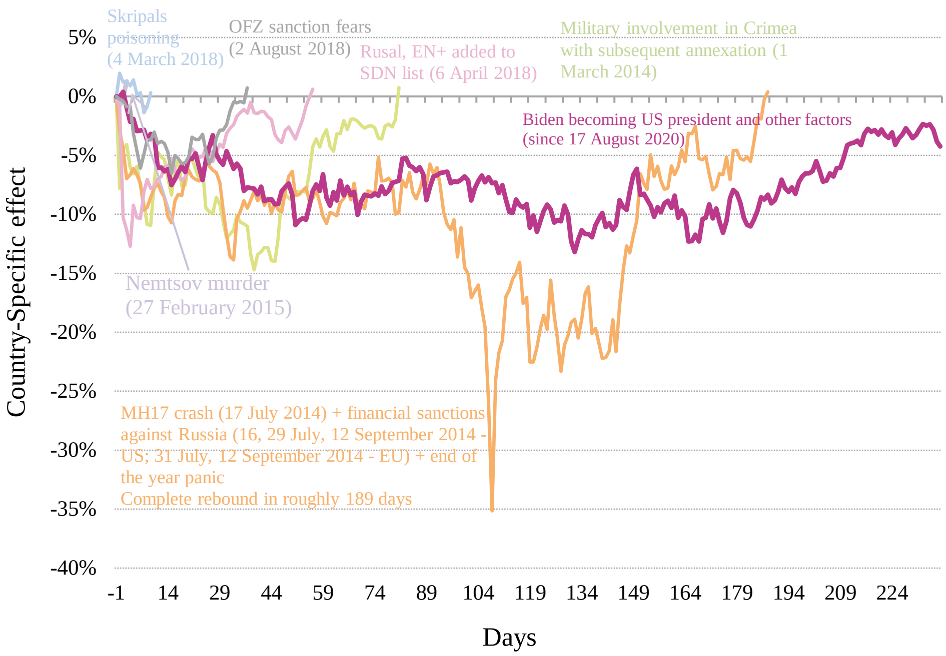
## To watch...

There is no significant news due this week.

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

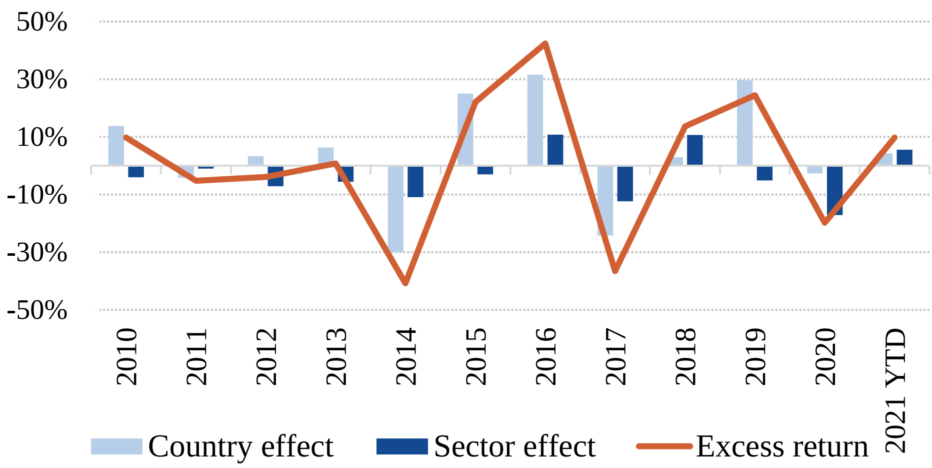
## Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events




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, July 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 16 July 2021

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