

Russian Equities Weekly

July 26-30, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	1.7%	16.3%
MSCI EM index TR in USD	-2.5%	0.2%
Excess return	4.2%	16.1%
Due to Russia specific factors*	2.5%	8.2%
Due to difference in sector structure*	1.7%	7.9%
MSCI EM HDY index TR in USD**	-1.5%	6.3%
Key commodities***		
Oil	2.3%	47.3%
Gold	1.5%	-3.3%
FX		
RUB/USD	1.0%	1.2%
RUB/EUR	0.0%	3.6%

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

Data as of 30 July 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	12%

Data as of 30 July 2021
TKB Investment Partners (JSC) calculations

Russian GDP growth rate regains pre-pandemic level

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging market (EM) index by 4.2%. This was due to both a Russia-specific factor, and the difference in the two indices' sector structures.

- **Russia-specific factor:** Investors reacted positively to the Central Bank of Russia's key rate increase of 100bp a week earlier. This suggests that accelerated inflation is likely to be under control. Investor optimism was supported by the fact that weekly inflation in Russia has been at near-zero levels over the past two weeks. The CBR's chair, Elvira Nabiullina, noted that there is a possibility the regulator will not further increase the key rate at its upcoming meetings
- **Sector-specific factor:** Additional support came from the overweighs in the materials and energy sectors, which outperformed the broader emerging markets.

Main Russian news

Russia's key macroeconomic indicators improved in June. Industrial production increased on an annualised basis in both the manufacturing and extraction segments. Retail sales also strengthened in both the food and non-food segments, but by less than in May when there was a low base due to Covid-related lockdowns 12 months earlier. Rosstat published real wage growth data for April, which showed an increase of 3.3% YoY.

Key macroeconomic indicators, YoY dynamics

	May 2021	June 2021
Industrial production	12.3%*	10.4%
Manufacturing	12.1%*	7.7%
Extraction	12.6%*	13.8%
Retail sales	27.2%	10.9%
Food	8.5%	4.3%
Non-food	50.0%	17.6%
Real wages	3.3%	Not available

*Data updated by Rosstat

Russia's GDP in H1 of 2020 rose by 4.6% YoY. According to the Ministry of Economic Development, **in June GDP regained its pre-pandemic level**, rising by 8.5% YoY. **The main the driver was domestic demand.** The ministry also raised its GDP growth forecast for 2021 to 3.8% from 2.9%. The forecasts for 2022 and 2023 remain at 3.2% and 3%, respectively.

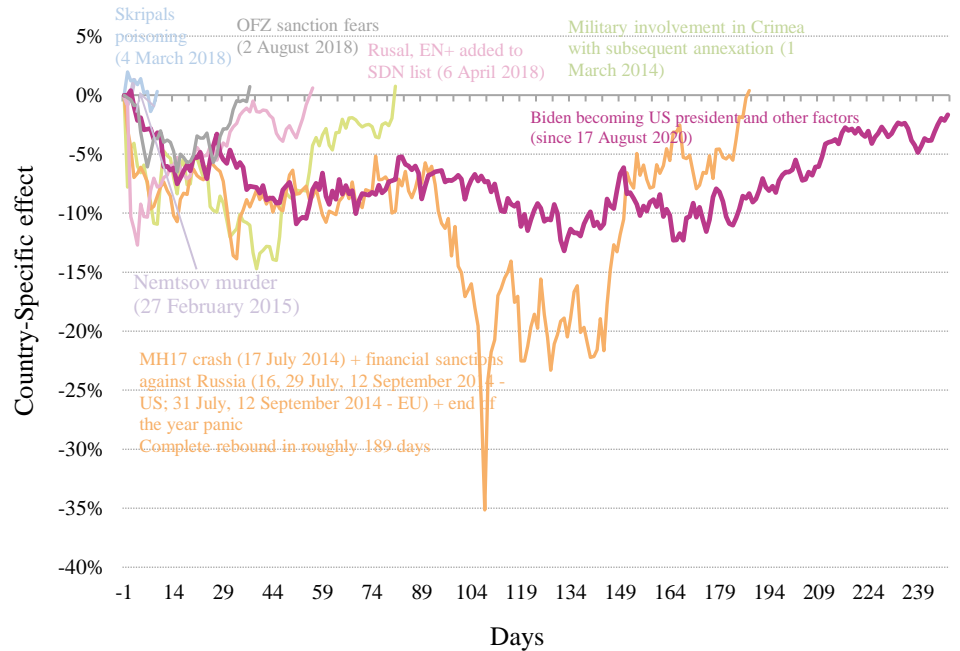
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To watch...

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

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

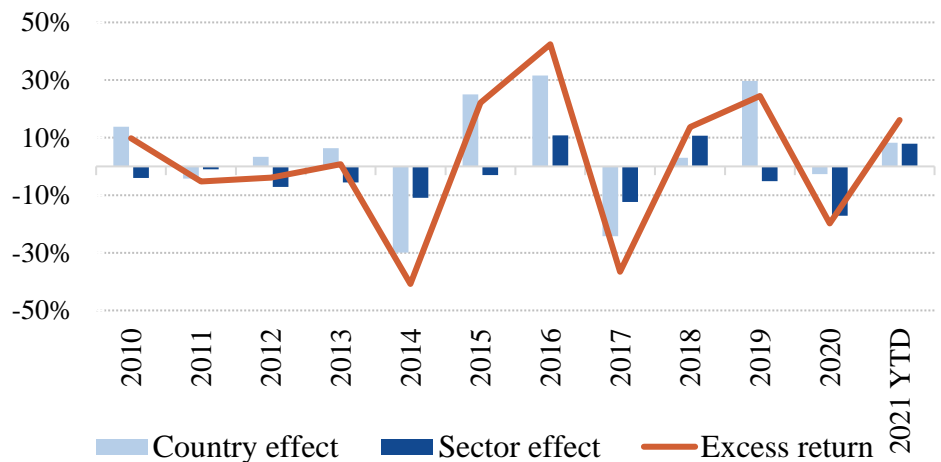
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events



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, August 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 July 2021

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