

Russian Equities Weekly

October 4 – 8, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	5.3%	29.5%
MSCI EM index TR in USD	0.9%	-0.9%
Excess return	4.4%	30.4%
Due to Russia specific factors*	3.3%	15.5%
Due to difference in sector structure*	1.1%	14.9%
MSCI EM HDY index TR in USD**	0.8%	6.9%
Key commodities***		
Oil	4.3%	62.1%
Gold	0.9%	-6.1%
FX		
RUB/USD	1.3%	3.2%
RUB/EUR	0.8%	8.1%

* See details of methodology at the end of the report

**MSCI Emerging Markets High Dividend Yield Index

*** We use Brent Oil and LBMA Gold, in USD terms. Energy weight in the MSCI Russia 10/40 is 41%; gold producers' weight in the index is 8% (as at the end of September 2021)

Data as of 8 October 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	6%

Data as of 8 October 2021

TKB Investment Partners (JSC) calculations

Another week of rally

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging markets (EM) by 4.4%. This was due to both a Russia-specific factor and the difference in the two indices' sector structures.

- **Russia-specific factor:** The energy crisis in Europe has led to stronger Russian-EU energy cooperation as Russia is a leading gas supplier to the region. Additionally, the Russian economy has larger exposure to commodities than the EM on average, and even local demand-oriented companies generally benefit from higher commodity prices, especially oil prices, which rose by more than 4%
- **Sector-specific factor:** The Russian market was supported by its overweight in the energy sector, which rose by 3.2% in the EM index. Additionally, the absence of the IT sector in the Russian index contributed positively to the relative excess return, as the sector underperformed the EM index.

Main Russian news

Russian inflation accelerated in September. The consumer price index (CPI) rose to 7.4% YoY after 6.7% YoY at the end of August. Food inflation rose to 9.2% YoY from 7.4% YoY in August, while non-food inflation increased to 8.1% YoY from 8.0% YoY the preceding month. Services inflation rose to 4.2% YoY from 3.8% YoY. The Central Bank of Russia (CBR) forecasts inflation for 2021 to be between 5.7% and 6.2%. The Ministry of Economic Development expects inflation to be at 5.8% YoY at the end of the year.¹

The World Bank (WB) published higher forecasts for Russia's GDP growth. The bank now expects Russian GDP to grow 4.3% in 2021, up from the 3.2% it forecast previously. **WB also updated its view on 2022 and 2023 GDP growth, lowering it to 2.8% and 1.8%, from 3.2% and 2.3%, respectively.** The bank based its downgraded forecast for the next two years on an expected stabilisation of demand arising from the Russian economy being affected by the escalation of geopolitical tensions, including new US sanctions introduced in 2021, vaccination rates being too low, and the central bank raising its key rate from record low levels.

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To watch...

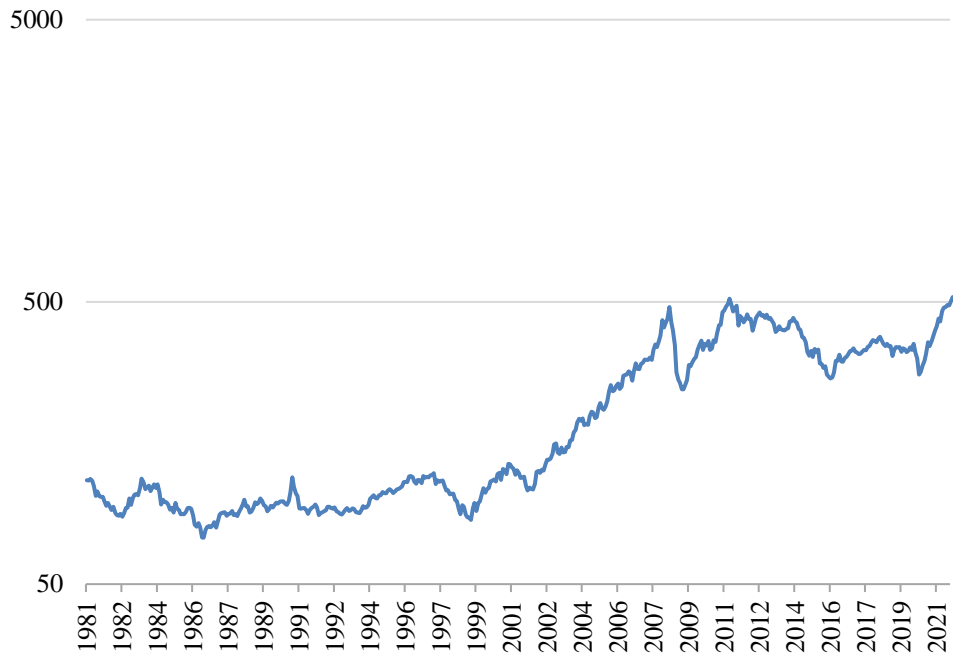
There is no significant news to follow this week.

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

¹ The latest forecast updates of the CBR and the Ministry of Economic Development were provided in September

Possible long-term growth in commodity prices

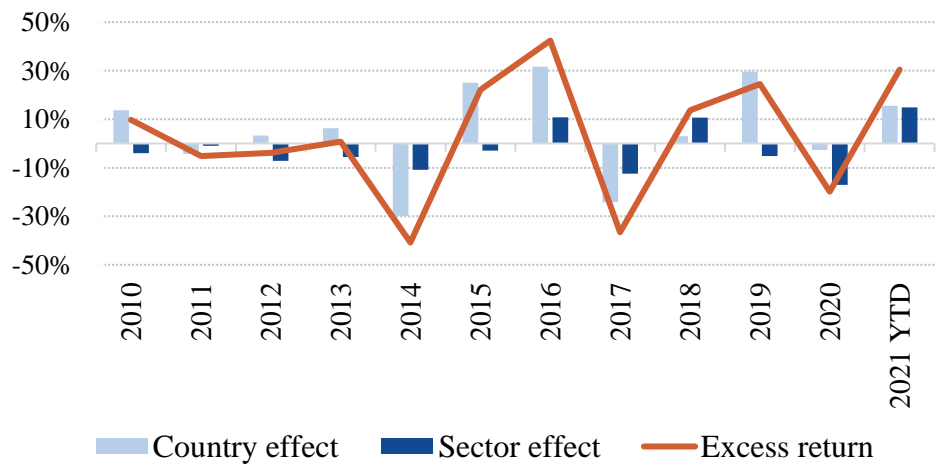
Bloomberg commodity spot index (in USD; index points; log scale)



Source: Bloomberg, TKB Investment Partners, October 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 the MSCI EM Energy and weighed it at 35%, MSCI EM Materials – 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 8 October 2021

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