

Russian Equities Weekly

December 20 – 24, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	0.7%	12.4%
MSCI EM index TR in USD	0.4%	-3.5%
Excess return	0.3%	15.9%
Due to Russia-specific factors*	0.2%	4.1%
Due to difference in sector structure*	0.1%	11.9%
MSCI EM HDY index TR in USD**	0.4%	7.5%
Key commodities***		
Oil	4.3%	47.0%
Gold	-0.1%	-4.4%
FX		
RUB/USD	0.1%	0.1%
RUB/EUR	0.0%	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 38%; gold producers' weight in the index is 9% (as at the end of November 2021)

Data as of 24 December 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	28%

Data as of 24 December 2021
TKB Investment Partners (JSC) calculations

Industrial production keeps accelerating

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging markets (EM) index by 0.3%. This was mainly due to Russia-specific factors. Most likely, the market bounced a bit after previous underperformance due to geopolitical concerns.

Main Russian news

Russia's industrial production growth accelerated to 7.0% YoY in November. The increase was seen in all four sectors. Extraction industries grew by 10.2% YoY, manufacturing industries rose by 5.3% YoY, the heat and gas supply sector rose by 3.9% YoY, industries related to water supply and sewerage, waste disposal and pollution elimination increased by 10% YoY. If compared to the pre-pandemic period (November 2021 to November 2019) the industrial production grew by 5.9%.

A meeting of the Russia-NATO Council may be scheduled for January. NATO Secretary-General Jens Stoltenberg has proposed holding a meeting of the Russia-NATO Council on January 12th, according to the information from the Russian Foreign Ministry. The meeting is proposed to discuss the draft of security documents demanding an end to NATO's eastward expansion and military cooperation with countries such as Ukraine and Georgia, among other things. Russia presented this draft two weeks ago (please see some details in our previous [weekly comments](#)).

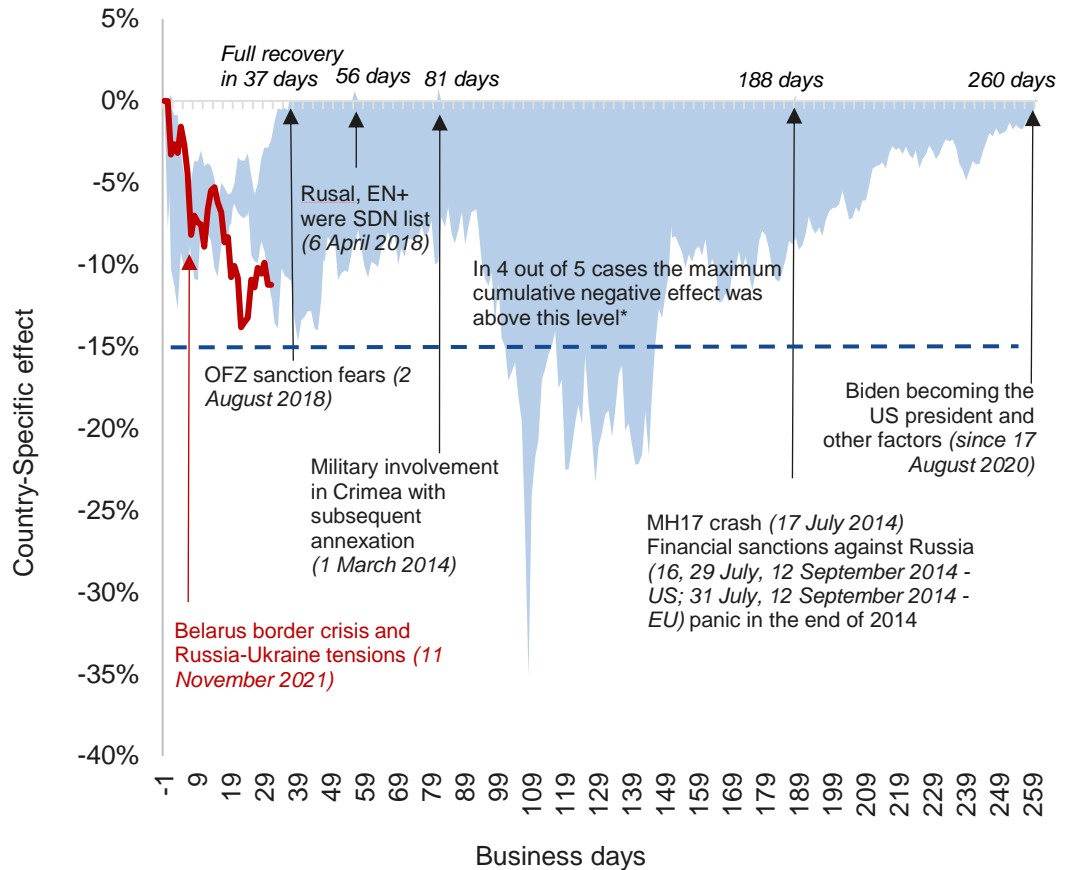
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To watch...

There is no significant news to follow this week.

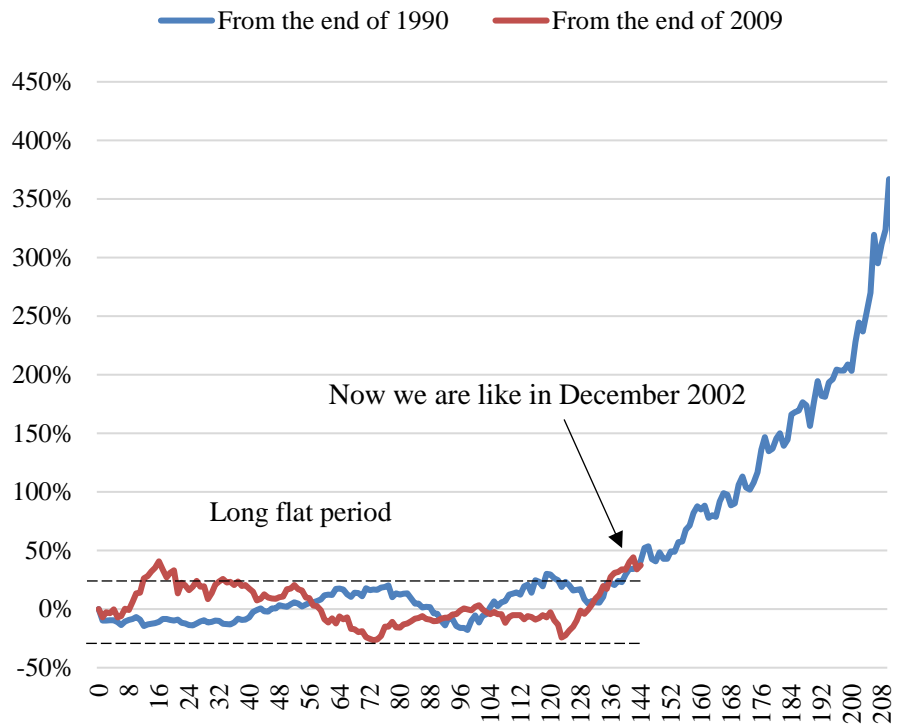
Sources: Vedomosti, Bloomberg, TKB Investment Partners (JSC); December 2021

Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events (range of negative cumulative effects since a particular sanction-related topic started to develop)



* the cumulative negative effect was below minus 15% only in the end of 2014- beginning of 2015 when a chain of events related to annexation of Crimea effected the market coupled with the strong drop of oil prices
 Note: To calculate the country-specific effect, we constructed an index from the EM sector indices with the structure of the MSCI Russia 10/40 index. For example, we took the MSCI EM Energy index and weighed it at 38%, the MSCI EM Materials index at 27%, etc. Therefore, the excess return due to Russia-specific factors equals the MSCI Russia 10/40 minus the constructed index. 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; Data as at 24 December 2021

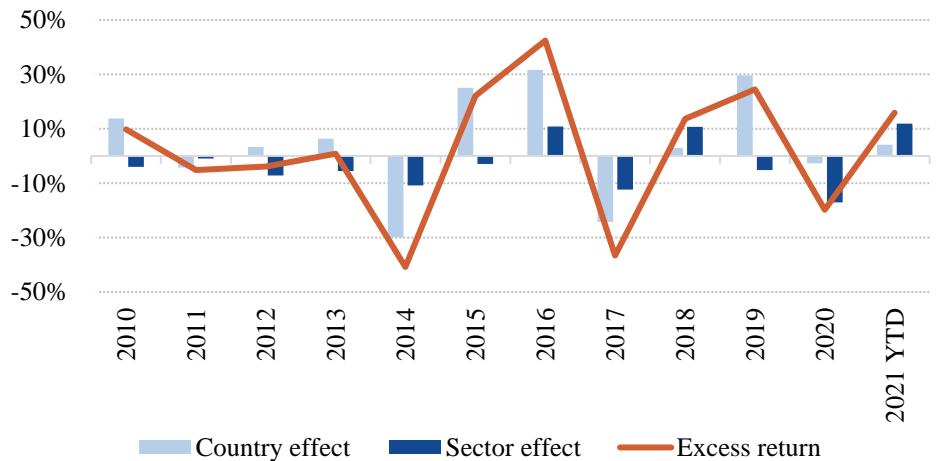
Possible long-term growth in commodity prices Bloomberg commodity spot index (in USD)



Source: Bloomberg, TKB Investment Partners, December 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 24 December 2021

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