

Russian Equities Weekly

November 29 – December 3, 2021

	Week	YTD
MSCI Russia 10/40 TR in USD	3.9%	17.4%
MSCI EM index TR in USD	0.2%	-3.3%
Excess return	3.7%	20.7%
Due to Russia-specific factors*	2.2%	9.4%
Due to difference in sector structure*	1.6%	11.3%
MSCI EM HDY index TR in USD**	1.6%	5.7%
Key commodities***		
Oil	-2.5%	36.4%
Gold	-1.8%	-6.4%
FX		
RUB/USD	2.3%	0.2%
RUB/EUR	2.6%	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 3 December 2021

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	17%

Data as of 3 December 2021
TKB Investment Partners (JSC) calculations

In anticipation of easing geopolitical tensions

Russian equity market dynamics

Last week, the Russian equity market outperformed the broader emerging markets (EM) index by 3.7%. This was due to both Russia-specific factors and the different sectoral structures of the two indices.

- **Russia-specific factors:** Positive investor sentiment increased on talks that a second Putin-Biden summit may be held before year-end. It is expected that the meeting could reduce the current geopolitical tensions
- **Sector-specific factor:** An additional positive effect came from Russia's overweight in the energy sector, which rose by 4% in the EM index, and underweight in the consumer discretionary sector, which dropped by almost 6%.

Main Russian news

Russia's key macroeconomic indicators were stronger in October on an annualised basis. Industrial production rose, mainly amid growth in the extraction segment, which was supported by the growth of oil and gas (8.9% YoY), and coal (9.1% YoY) production. Retail sales strengthened thanks to higher food and non-food purchases, although the growth was weaker than in September 2021. Real wage growth data for September showed an increase of 2.0% YoY.

Key macroeconomic indicators, YoY dynamics

	September 2021	October 2021
Industrial production	6.9%*	7.1%
Manufacturing	5.1%*	4.5%
Extraction	9.0%*	10.9%
Retail sales	5.6%	4.1%
Food	3.0%	2.4%
Non-food	8.0%	5.7%
Real wages	2.0%	Not available

* Data updated by Rosstat

The World Bank (WB) lowered its forecast for Russian economic growth. The bank expects Russian GDP to grow by 2.4% in 2022, which is slightly down on its October forecast of 2.8%. The weaker outlook was mainly due to the production gap being closed earlier than expected amid the rapid recovery this year. Another reason was Russia's low COVID-19 vaccination rates and high number of cases. The WB noted that the vaccination rate will likely be one of the main factors determining the outlook for numerous countries in the coming year.

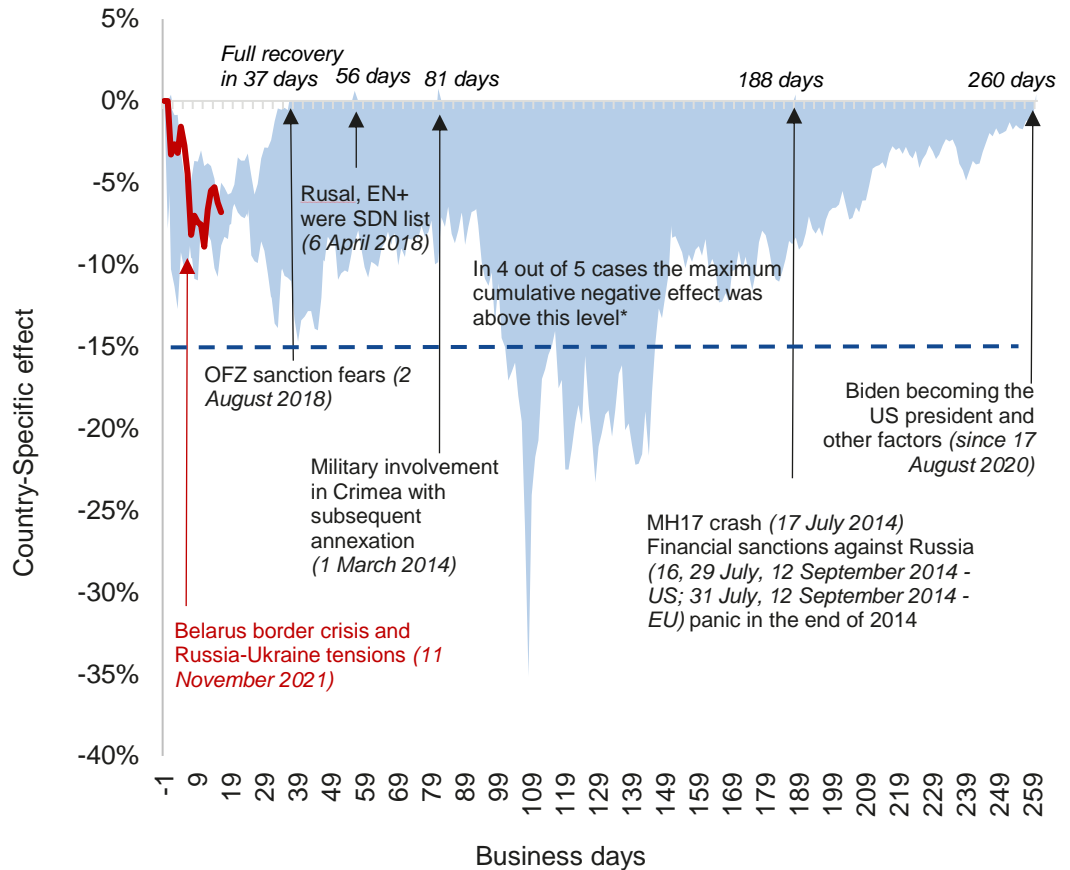
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To watch...

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

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

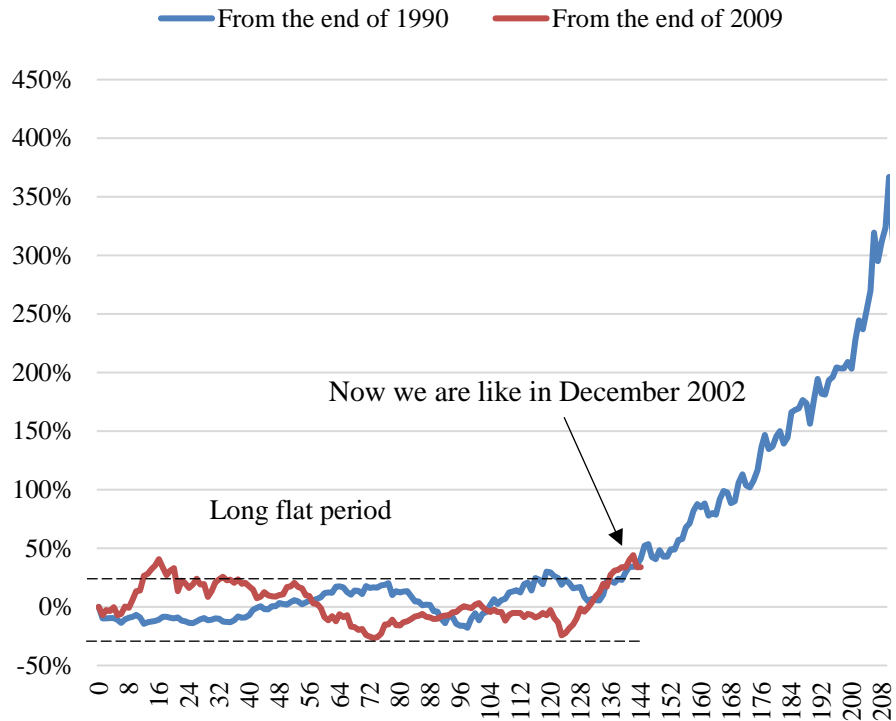
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events (range of negative cumulative effects since a particular sanction-related topic started to develop)



* 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 3 December 2021

Possible long-term growth in commodity prices

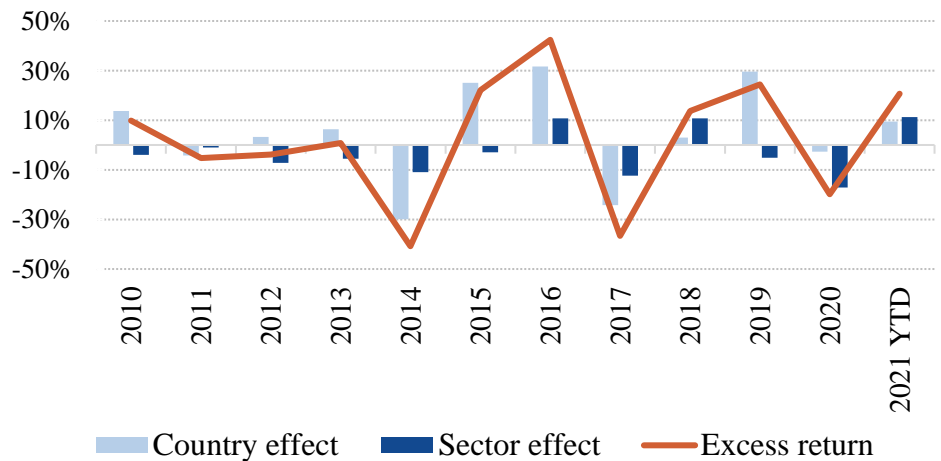
Bloomberg commodity spot index (in USD)



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 3 December 2021

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