TKB INVESTMENT PARTNERS

Russian Equities Weekly January 3 – 7, 2022

	Week	YTD
MSCI Russia 10/40 TR in USD	-2.1%	-2.1%
MSCI EM index TR in USD	-0.5%	-0.5%
Excess return	-1.6%	-1.6%
Due to Russia-specific factors*	-2.8%	-2.8%
Due to difference in sector structure*	1.3%	1.3%
MSCI EM HDY index TR in USD**	0.8%	0.8%
Key commodities***		
Oil	5.7%	5.7%
Gold	-0.7%	-0.7%
FX		
RUB/USD	-0.7%	-0.7%
RUB/EUR	-0.9%	-0.9%

* 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 36%; gold producers' weight in the index is 9% (as at the end of December 2021)
Data as of 7 January 2022
TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	28%

Data as of 7 January 2022
TKB Investment Partners (JSC) calculations

Russian equities under geopolitical pressure

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging markets (EM) index by 1.6%. This was mainly due to Russia-specific factors:

- <u>The tense situation in Ukraine remained in the spotlight</u>. Markets are awaiting the key political meetings this week. On 10 January, representatives from Russia and the US are due to meet to discuss strategic stability and key geopolitical concerns, including the Ukraine situation. On 12 January, Russian representatives will meet with the NATO council, with NATO's eastward expansion being among the key agenda items
- <u>Political unrest in Kazakhstan imposed additional pressure on Russian equities</u>**.** Last week, Russia sent troops to the country at the Kazakhstan president's request, which resulted in market nervousness. However, the market's reaction was mild as Russia was acting in agreement with the CSTO[1] protocol. Neither the US nor Europe appeared to have a strong opposing opinion on the news.

[1] The Collective Security Treaty Organization is an intergovernmental military alliance in Eurasia comprising six members: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan

Main Russian news

OPEC+ have decided to go ahead with the scheduled 400 000 barrels per day increase in oil output in February 2022. The organization claims to have reduced its risk evaluation of the impact of the Omicron Covid variant and now assumes that its negative effects on oil prices will likely be soft and short-lived. Russia's Deputy Prime Minister Alexander Novak expects oil demand to continue to recover in 2022, helped by the ongoing Covid vaccination programmes. He forecasts oil demand to reach pre-pandemic levels by the end of the year. The next OPEC+ meeting is scheduled for 2 February 2022.

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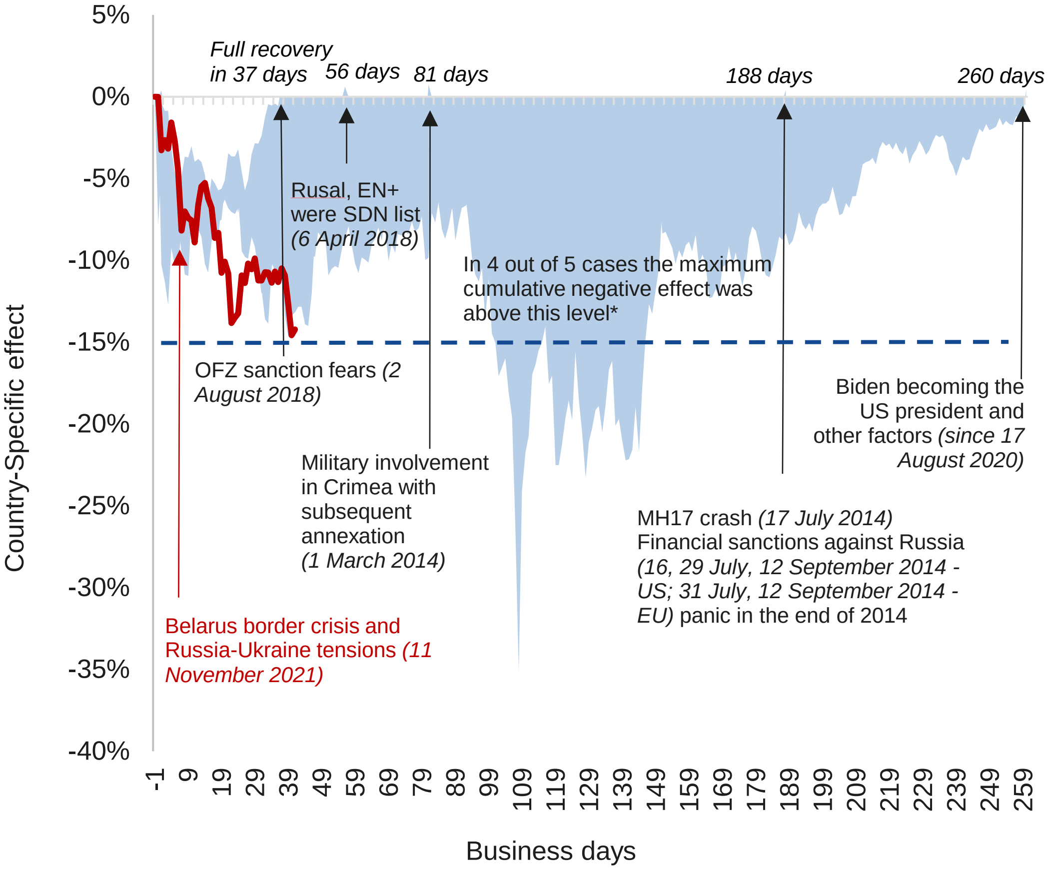
Investment Specialist

To watch...

Rosstat is due to publish inflation figures for December 2021.

Sources: Vedomosti, Bloomberg, TKB Investment Partners (JSC); January 2022

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)



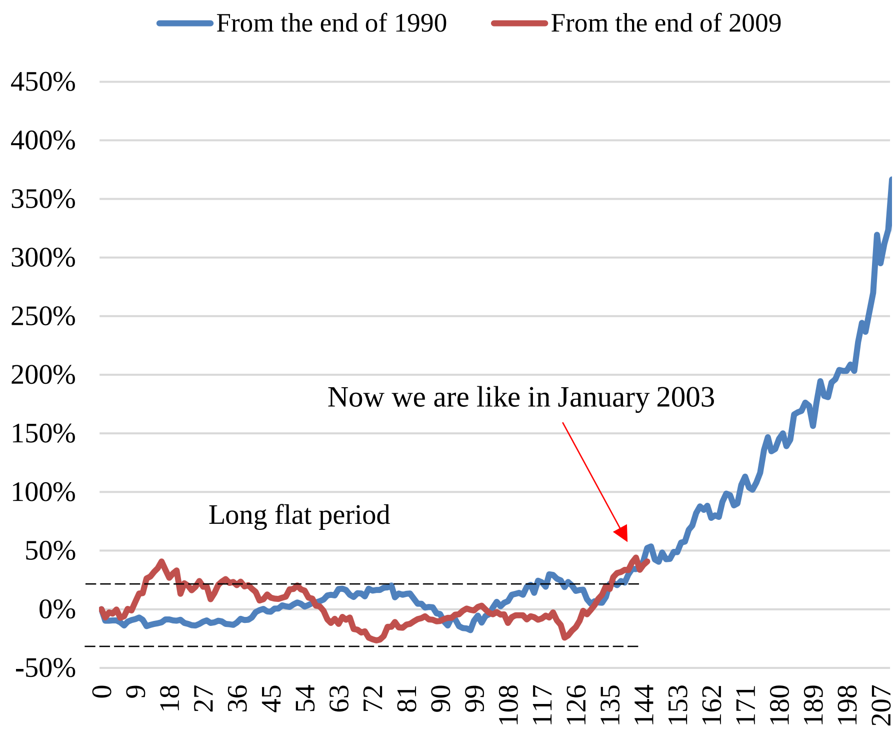
* the cumulative negative effect was below minus 15% only in the end of 2014- beginning of 2015 when a chain of events related to annexation of Crimea effected the market coupled with the strong drop of oil prices

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 7 January 2022

Possible long-term growth in commodity prices

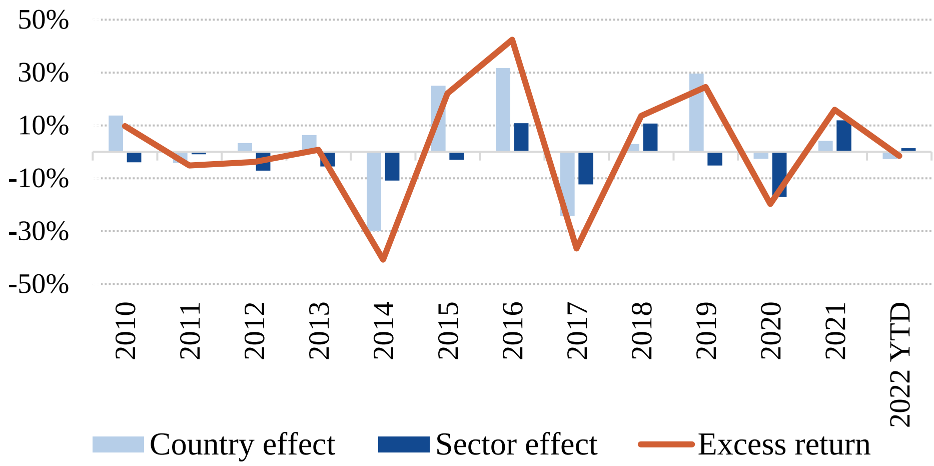
Bloomberg commodity spot index (in USD)



Source: Bloomberg, TKB Investment Partners, January 2022

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 7 January 2022

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