

Russian Equities Weekly

January 10 – 14, 2022

| | Week | YTD |
|--|-------|-------|
| MSCI Russia 10/40 TR in USD | -4.3% | -6.3% |
| MSCI EM index TR in USD | 2.6% | 2.1% |
| Excess return | -6.9% | -8.4% |
| Due to Russia-specific factors* | -7.0% | -9.7% |
| Due to difference in sector structure* | 0.1% | 1.4% |
| MSCI EM HDY index TR in USD** | 1.2% | 2.0% |
| Key commodities*** | | |
| Oil | 5.4% | 11.5% |
| Gold | 1.7% | 0.9% |
| FX | | |
| RUB/USD | -1.1% | -1.8% |
| RUB/EUR | -0.9% | -1.7% |

* 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 14 January 2022

TKB Investment Partners (JSC) calculations; Bloomberg

| | Current |
|--------------------------------------|---------|
| Upside/downside to fair price | 28% |

Data as of 14 January 2022

TKB Investment Partners (JSC) calculations

No agreement reached with the US and NATO

Russian equity market dynamics

Last week, the Russian equity market underperformed the broader emerging markets (EM) index by 6.9%. This was mainly due to Russia-specific factors. The negotiations between Russia, the US and NATO reached no agreement on strategic stability and key geopolitical concerns. The Russian authorities stated that Moscow sees no grounds for holding a new round of negotiations with the US on security guarantees in the near future. Additionally, on 12 January, the US Senate Democrats presented a bill covering a fresh package of sanctions targeting top Russian government and military officials, including President Vladimir Putin and key banking institutions.

We see the current drawdown as a good entry point for the Russian market now. For more information, please see our latest flash note [January 2022 Sanction fears – good entry point for the Russian market.](#)

Main Russian news

Russian inflation in 2021 reached 8.4%. This was more than twice higher than the central bank's target. December inflation moved sideways after hitting 8.4% YoY in November. Food segment inflation slowed to 10.6% YoY after 10.8% YoY in November. Services segment inflation also edged down from 5.2% YoY in November to 5.0% YoY in December. Non-food inflation accelerated to slightly 8.6% YoY after 8.3% YoY in November.

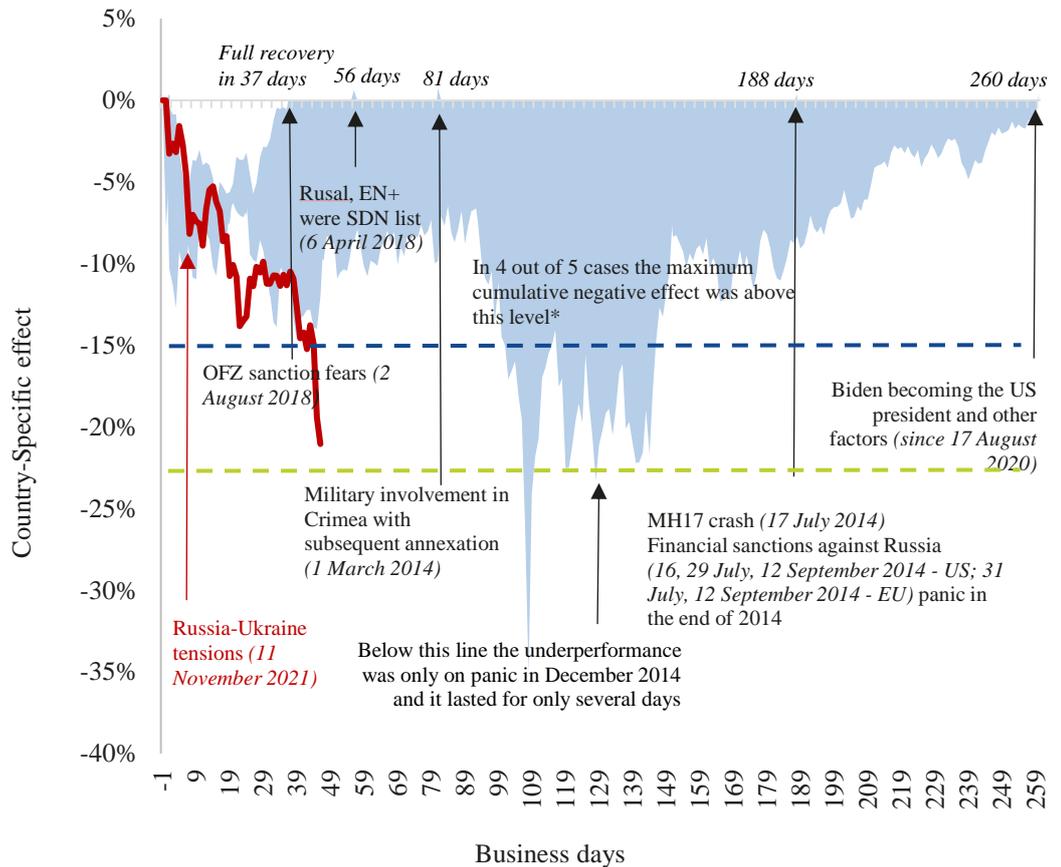
*Author: Marina Tsutskiridze
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To watch...

There is no significant news to follow this week.

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

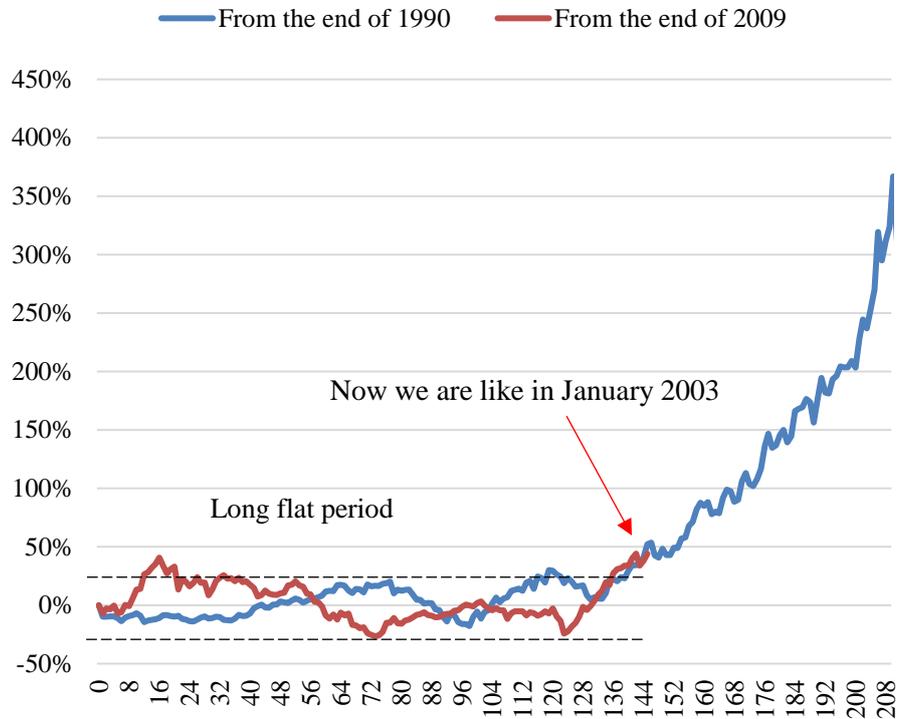
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events (range of negative cumulative effects since a particular sanction-related topic started to develop)



* 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 14 January 2022

Possible long-term growth in commodity prices

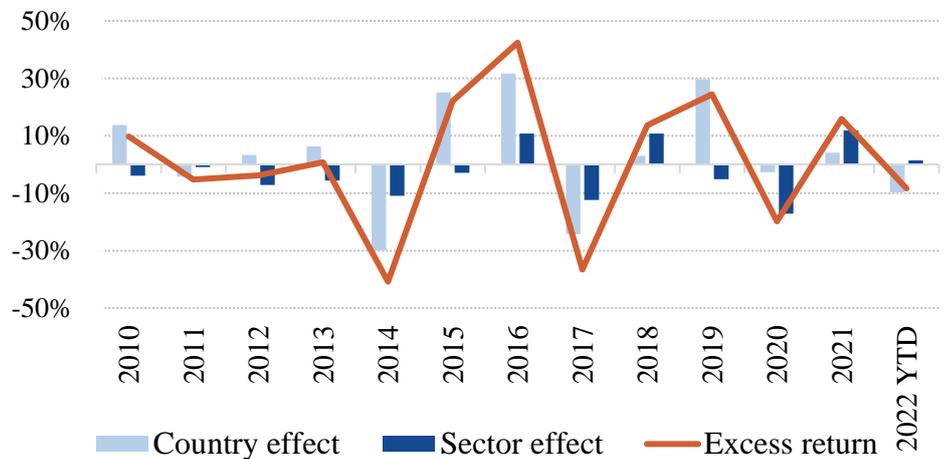
Bloomberg commodity spot index (in USD)



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 14 January 2022

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