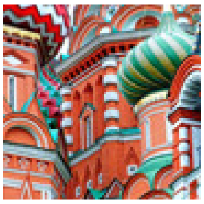
Russia

The Impact of President Trump



Stefan Herz, Lead Portfolio Advisor EMEA Markets
examines Trump's policy proposals and attempts to assess their impact on Russian stockmarket valuations

09 November 2016

Whilst the purpose of our usual monthly commentary is to review the past rather than comment on the present we feel compelled to break the rules just this once given that it is post-election morning as we finally sit down to write. Indeed dwelling too much on the past four weeks seems a rather futile exercise given the momentous event that has just taken place across the pond, the implications of which will be felt well beyond the borders of the United States for many years to come. So allow us to speculate a little and to do some crystal ball gazing to try and figure out what this could mean for Russia.

It was clear during the last weeks of the campaign that Putin preferred a Trump victory over having to work with Hillary Clinton, who after all described him as "a cold-blooded, calculating former KGB officer who is determined to enrich himself and his closest colleagues…" and whose foreign policy goals have repeatedly clashed with those of Russia over the last few years. On the other hand the "bromance" appears to be flourishing with Trump not shy in returning Putin's compliments by declaring that "it is always a great honour to be so nicely complimented by a man so highly respected within his own country and beyond".

Maybe it is no coincidence that Putin was the first global leader to congratulate Trump on his victory. Of course we suspect that a large part of Putin's admiration for Trump stems from his perception that the latter will be a weak, inexperienced and ineffectual leader, less likely to challenge Russia's strategy to reassert itself as a dominant global power.

Returning to what we are paid to do, the question that we need to grapple with is obviously what all of this means for investors in Russia.

- Will there be a sustained "Trump bounce" in Russian equities?
- Are we more likely to see sanctions being relaxed in 2017?
- Will Trump follow through on his infrastructure investment plans and will this be positive for commodity prices?
- Is the Fed now less likely to hike rates and what will this mean for the rouble?
- Will investors regard Russia as an emerging market safe haven given the threat of trade conflicts with Asia and Trump's vitriolic attacks on Mexico and Hispanic immigration?

It would be more than arrogant of us to claim that we had the definitive answers to any of these questions just as it would be remiss of us not to consider these issues and form our own opinions. So at the risk of being exposed for being wrong in the future here are our initial thoughts on the above questions and we will leave the answer to the first one to the end:

Sanctions

Without the support of Congress, Trump would find it very hard to abolish any of the existing sanctions as even executive orders can be overruled by Congress via the passage of new laws. Congress is unlikely to want to be seen as going soft on Russia but we can certainly expect the sanction rhetoric to become weaker which is also likely to be welcomed by a number of European countries. Net – Net Positive for Russia

Infrastructure Investment

Whilst the Mexican wall is unlikely ever to be built, increased investment in infrastructure should be one of the easier election pledges to follow through on. The extent is hard to predict but on balance this should be supportive for commodity prices. Net – Net Neutral for Russia

Fed rate hike

This certainly looks less probable now before the end of the year, which combined with overall nervousness regarding Trump's economic policies or indeed the make-up of his economic team is likely to keep a lid on US dollar performance. Net – Net Positive for Russia/rouble

Russia as an emerging market safe haven

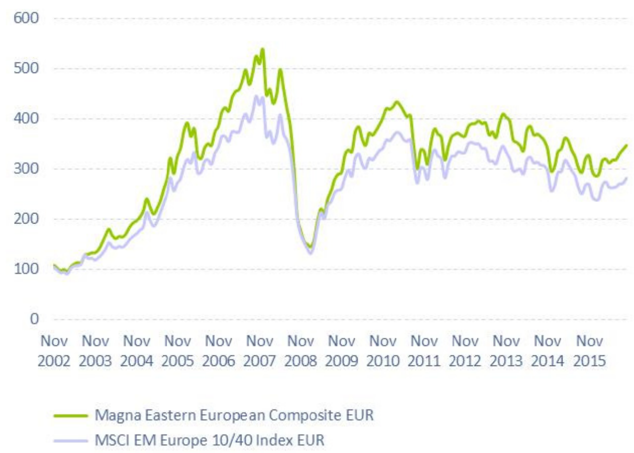
US – Asian relations are now at risk of protectionist trade policies as indeed are relations with Mexico whilst tighter immigration policies are unlikely to improve relations with the rest of Latin America. The risk premia at which Russian stocks have traditionally traded versus their global peers should gradually reduce to reflect the new order. Net – Net Positive for Russia

Will there be a sustained bounce in Russian equities?

We believe that this is more likely than not. Russian equity valuations are attractive in a global context, risk premia for Russia are likely to reduce and the factors above will play into the hands of Russian investors. Amongst GEMs funds Russian exposure continues to be concentrated in a small number of names which could provide room for a broader rally in Russian equities.

Fundamentals will continue to drive our investment process and these do not change overnight. Hence we are not trading on the back of these election results preferring instead to see our Russian stock picks do their job to provide long-term performance. Our investors however need to make asset allocation decisions and we believe that yesterday's seismic shock provides a great opportunity to reassess the case for investing in Russia.

Investors can gain exposure to Russia by way of Charlemagne Capital's Magna Eastern European Fund, which had over 50% of its assets in Russia as at the end of October 2016. The performance of this fund is shown below.



Period to 28 Oct 2016	Fund	Index	Relative
1 Month	2.4%	3.8%	-1.4%
3 Months	8.9%	6.7%	2.2%
From 31 Dec 2015	17.7%	15.3%	2.4%
1 Year	8.3%	5.3%	3.0%
Annualized data:			
3 Years	-5.4%	-6.6%	1.2%
5 Years	0.5%	-1.4%	1.9%
10 Years	-0.7%	-1.6%	0.9%
Since inception (31 Oct 2002)	9.3%	7.7%	1.6%

Gross EUR

Chart rebased to 31 Oct 2002 = 100

Fund returns are based on a composite of all share classes

The Index is the MSCI EM Europe 10/40 Index

The Magna MENA Composite is based on all share classes of the Magna MENA Fund. Charlemagne Capital claims compliance with the Global Investment Performance Standards (GIPS®), as verified for the period 1 Jun 2000 through 31 Dec 2014 by Ashland Partners. A copy of the verification report and a presentation that adheres to GIPS standards are available upon request.

Source: Charlemagne Capital, S&P

Charlemagne Capital

Specialists in emerging markets

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