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Equity Investors Send $237M Russia's Way at the End of January.

By The Moscow Times

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The last seven days in January saw foreign investors putting $414 million into investment funds that have Russian portfolios — the highest inflow seen since April of 2011.

Of that inflow, $237 million was specifically targeted to Russia. This represents a change in the direction of capital flows, since the last half of 2011 saw continuous flight from domestic markets.

Russia was the global champion for capital flight by institutional investors, with the average weekly outflow reaching about $200 million, starting last spring, said Sergei Yezimov, a portfolio manager at Wermuth Asset Management.

Investor reactions in December were excessive against the background of political risks, Verno Capital portfolio manager Bruce Bower said. "The MSCI Emerging Markets index then dropped 1.3 percent, versus a 10 percent drop on the Russian market," Bower added.

In Russia, investors are concluding that the political situation is still stable, Bower said. He expects inflows to continue.

Investors are including into their equity evaluations a victory for Vladimir Putin in the upcoming presidential elections and a return of stability, which, it seems, they lost in December of last year, said Vladimir Bril, head of equity market operations at JPMorgan. But, he adds, the positive mood is very fragile — "doom and gloom" can return, leading to a market turn around.

Furthermore, the domestic market is oversold, Morgan Stanley emerging markets strategist Mariana Kozintseva said. Russia is the cheapest market of all those in Eastern Europe, the Middle East and Africa, trading at a 29 percent discount to the historical average, and with a 48 percent discount to other emerging markets, she said.

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