

Economy Fears Overshadow Russian Stocks Outlook

By [The Moscow Times](#)

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An expected fourth quarter rebound in Russian stocks will not make up for losses earlier in the year, with clear signs that the economy is cooling and falling oil prices are stifling growth, a Reuters poll has found.

Russian shares will rise 1.9 percent from Tuesday's close of 1,471.65 by the end of the year but will still be 1.8 percent in the red overall for 2013, as analysts polled by Reuters again trimmed their outlook.

The median of 11 analysts showed the country's dollar-denominated RTS stock index — which has underperformed emerging markets with a 3.6 percent fall so far this year — would end 2013 at 1,500 points, below the 1,526 it finished 2012.

Analysts grew more pessimistic as the year progressed. A poll in June found stocks would rise 2 percent this year to 1,565 points. In March, analysts expected a 11 percent gain during

the year to 1,700.

"Reform issues and the lack of clarity about future growth are major issues that affect investor flows," said Chris Weafer, senior partner with Macro-Advisory.

Some investors have shown frustration with the lack of progress on reforms and the country's plans to privatize assets. More than \$2.5 billion has been pulled out of Russia-dedicated funds so far this year, Gazprombank says.

But by traditional measures, Russian stocks are heavily undervalued, with a market price-earnings, or P/E, ratio of about 5.5 — a discount of around 50 percent to other emerging markets — partly due to a poor record of corporate governance.

However, the market is trading on a high dividend yield of 3.8 percent, outperforming by 33 percent broader emerging markets, Credit Suisse estimated.

Investors are concerned about Russia's economy, which has hit a soft patch this year due to sluggish investments, prompting the government to slash its growth forecast to 1.8 percent — the slowest pace in four years.

Russia's economic growth is expected to improve in the fourth quarter, helped by a recovery in its chief trade partner, the European Union, and stabilized growth in China that bodes well for strong commodity prices.

The Russian market is traditionally stronger in the fourth quarter. The stock index has performed positively in December since 1995, with an average 5.9 percent monthly return.

A fall in the price of Brent crude, down more than 2 percent this year so far, has weighed on stocks. The oil and gas sector accounted for 30 percent of Russia's earnings last year and around 73 percent of earnings by companies in the MSCI Russia index, according to analysis by Credit Suisse.

Delays to the expected tapering in the U.S. bond-buying program, which had provided a source of dollars that find their way into high-yielding emerging market stocks and currencies, has kept investors on edge.

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