JOHCM Funds

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**March 2022**

# Latest Views on Russia

## Views as of March 7th, 2022

- Russia is facing crippling sanctions affecting both its economy and its financial markets. These are likely to continue for the foreseeable future, and Russia is now effectively uninvestable both from a technical and a fundamental point of view.
- The sanctions on payments and transfers are hitting almost every aspect of the Russian economy. US sanctions provide an exemption for US dollar transactions to pay for energy (for now), but only the gas companies are able to sell large volumes at the current high prices. Elsewhere, shipping firms are declining to visit Russian ports, FedEx and UPS are not shipping to Russia, and aviation traffic has collapsed. Russian producers are struggling to export even oil and coal, while consumer product and service industries face a much worse outlook. The impact on the financial sector is potentially even worse. Other sanctions have restricted Russia's ability to sell sovereign debt to international investors (although the looming default makes that unlikely in any case), suspended technology transfers and, crucially, frozen Russia's foreign exchange reserves held in Western currencies. The Rouble has collapsed in value, and the bad news for the Russian economy continues to pile up day by day. It is unclear what 2022 will bring for GDP growth, inflation, interest rates, the fiscal balance or the current account balance, but the outlook is for an economic crisis. Consequently, we are extremely negative about the outlook for Russian assets. A month ago, we had positive views on Growth, Liquidity and the Currency in Russia – that is emphatically not the case now.
- From a technical market point of view, sanctions and the knock-on effect they have on confidence have had a dramatic impact. The situation has been developing rapidly, but at the time of writing can be summarized as:
  - The Russian local equity market has stayed closed since 25 February and there is no near-term prospect of re-opening. In addition, the Russian government has banned sales by foreigners and imposed capital controls.
  - US-listed Russian stocks (Yandex, Ozon etc) have likewise been closed since 25 February and there is no near-term prospect of them re-opening.
  - Major clearing houses Euroclear and Clearstream are refusing to settle Russian equity trades (local and GDR) and Rouble FX trades.
  - Russian GDRs are suspended on the London Stock Exchange and are not expected to re-open.
  - Major equity index providers are planning to remove Russia from broad indices. MSCI will delete Russian constituents at a zero value from its emerging markets indexes on March 9; FTSE Russell removed Russian constituents from their indices at a zero value on March 7.

- The conflict also spills out into other emerging markets through a number of routes. One of these is higher commodity prices, most notably oil and gas, but also other products which are experiencing supply interruptions, including coal, wheat and fertilizers. It is also important to note that Ukraine is a major exporter of wheat, corn and edible oils, and that planting season is typically this month for these crops. This is likely to lead to inflation and current account stress in large commodity importers such as Egypt, Turkey, India and Pakistan. Another effect of the conflict is higher perceptions of geopolitical risk in areas of current stress, including Taiwan, the countries bordering the South China Sea and Turkey.
- There are no winners from this. We will continue to seek a diversified portfolio of deliberate, scaled positions in attractively valued equity markets with good or improving politics and good or improving economics.

- In the JOHCM Emerging Markets Opportunities Fund, the position in the Sberbank GDR was sold on the day after the invasion. The fund's position in Lukoil GDRs has been completely sold, almost all of the Gazprom GDRs have been sold and the GlobalTrans GDR position was reduced as far as liquidity would allow. The fund currently holds extremely small positions in GlobalTrans GDRs and Gazprom GDRs. These securities have now been suspended by the London Stock Exchange and no further sales are expected.
- As a result, we made the difficult decision to place a ZERO value on the remaining two positions in the JOHCM Emerging Markets Opportunities Fund. On the day of the March 3, 2022 markdown, the two positions totaled <0.15% of the fund's assets.
- The fund has no trapped Rouble cash balances.
- Additionally, we are zero weight Poland and Turkey, and have no frontier investments in Central and Eastern Europe. We also do not believe that any other fund holdings have meaningful economic exposure to Russia or Ukraine.

Sources for all data JOHCM/Bloomberg (unless otherwise stated)