Russian financial market outlook

2025

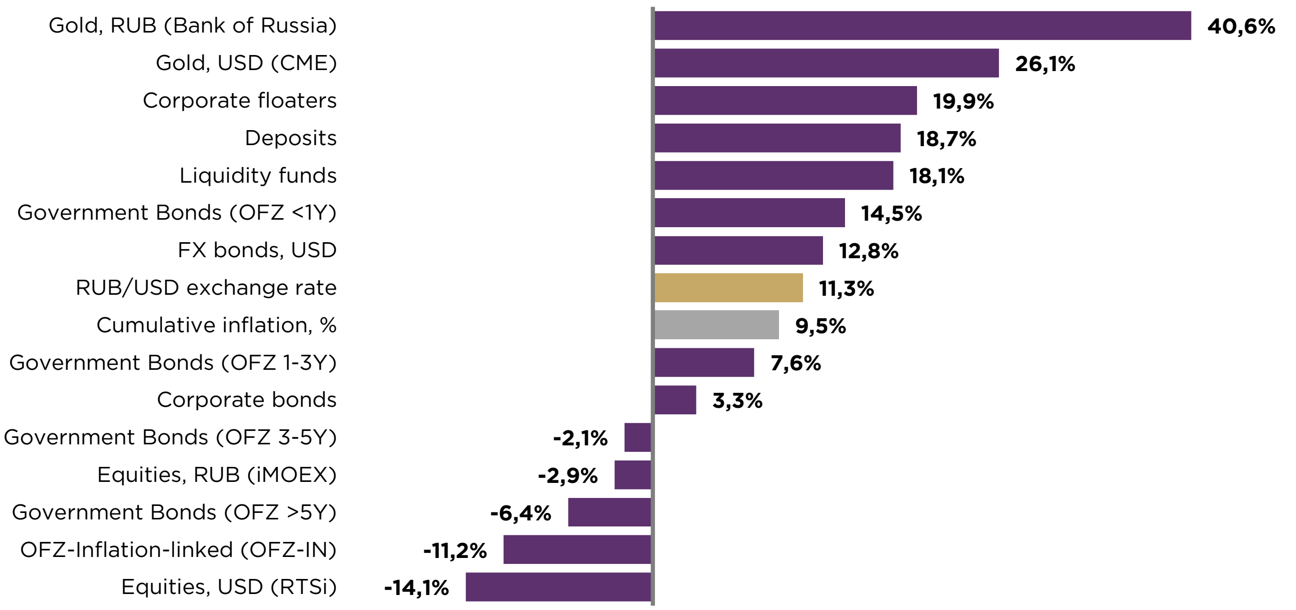
Data as of 31.12.2024
Source: Bank of Russia, Cbonds, TKBIP

Pre-2025 market conditions

In 2024, the CBR raised the key rate to 21%. This move was driven by a complex set of economic dynamics:

- **Fiscal Expansion and Early Monetary Tightening.** Large-scale government spending in 2022–2023, driven by defense and social expenditures, generated a strong economic impulse, boosting GDP growth to 4.1% in 2023 and 4.3% in 2024. However, the rapid expansion of money supply (M2) and credit growth—particularly through subsidized mortgages and state contracts—forced the Central Bank to begin tightening monetary policy as early as mid-2023. By early 2024, the key rate had reached 16%, however inflation remained elevated at 7.42% YoY.
- **Sanctions and Structural Shifts.** Western sanctions led to two major economic disruptions: the need for import substitution due to restricted access to foreign goods and the exodus of international companies, and severe currency volatility. The ruble experienced sharp depreciation followed by prolonged instability, which fueled inflationary expectations. While import substitution initially supported domestic production, the ruble's volatility became a self-reinforcing driver of inflation as businesses and consumers adjusted to expectations of sustained price increases.
- **Overheating Demand and Labor Market Strains.** Robust fiscal and credit stimulus fueled domestic demand, allowing businesses to fill gaps left by foreign companies and expand production. However, capacity constraints soon emerged: labor shortages intensified as companies competed for workers, pushing wages up by 17.5% in 2024 (34.6% since 2022). While rising incomes supported consumption, soaring labor costs began to limit further production growth. Sustained consumer demand allowed businesses to transfer costs to end users, turning economic growth into accelerating inflation.
- **Credit Programs Undermine Monetary Policy.** Preferential lending schemes—notably subsidized mortgages and preferential loans for strategic industries—weakened the transmission of higher interest rates, keeping credit demand artificially high. This reduced the effectiveness of monetary tightening, allowing inflation to persist above targets. Despite aggressive rate hikes, the persistence of cheap credit channels prolonged demand-side overheating.
- **Policy Reassessment and Historic Tightening.** With inflation being stickier than anticipated, the Central Bank had to change its earlier forecasts and adopt ultra-tight measures, eventually raising the key rate to a record high. The combination of fiscal overstimulus, labor shortages, and structural bottlenecks left policymakers with limited options: without a rebalancing toward supply-side investments, demand pressures risked entrenching higher inflation expectations.

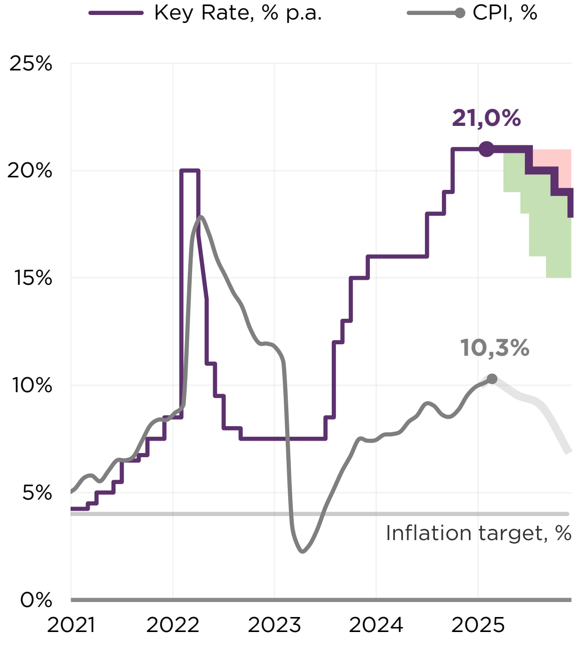
Returns by Asset Class, 2024



Market outlook. **Monetary policy shifts to easing**

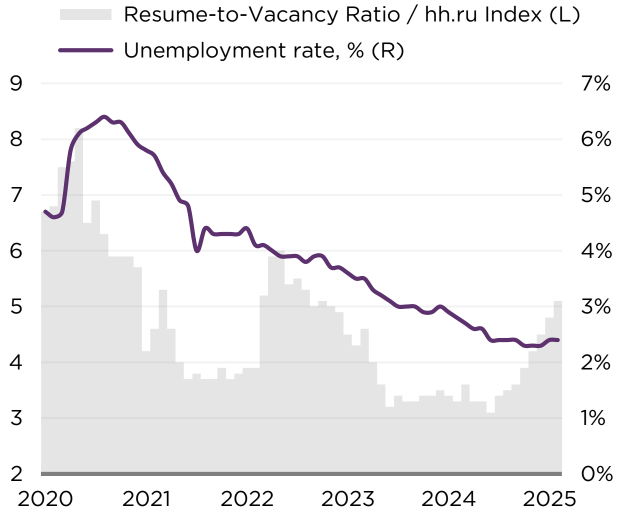
The key rate cuts are expected as inflation slows. While 2024 was marked by aggressive monetary tightening, the outlook for 2025 is notably different. Inflation indicators are beginning to show signs of cooling, indicating inflationary pressures have likely peaked. We anticipate a potential shift toward rate cuts as early as the second half of the year, provided that inflation shows a steady decline.

Forecast of the CBR Key Rate and CPI



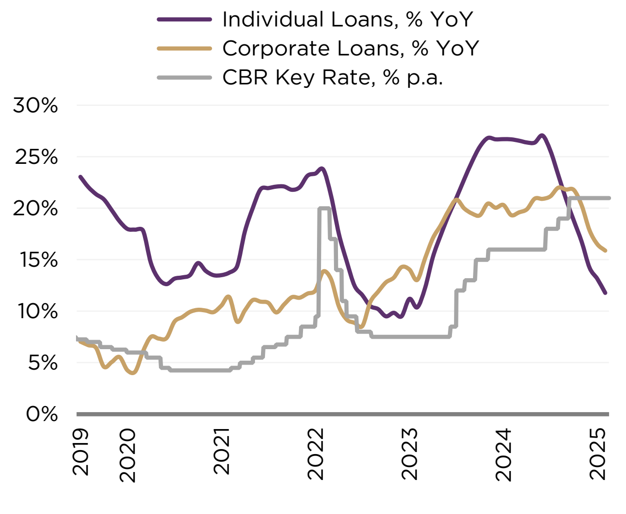
The labor market is cooling amid slowing economic growth and weaker corporate demand for labor. While unemployment hit a record low in late 2024, the hh.ru Index now signals rising job cuts and fiercer competition among applicants. Unlike 2022-23—when exit of foreign companies drove the index up without increasing unemployment (offset by strong hiring from Russian companies)—2025 presents a different dynamic. We expect unemployment to rise, easing inflationary pressures in the economy. This trend is also likely to push companies to cut back on capital and operational expenditures, further reinforcing the slowdown in business activity.

Labor Market Easing

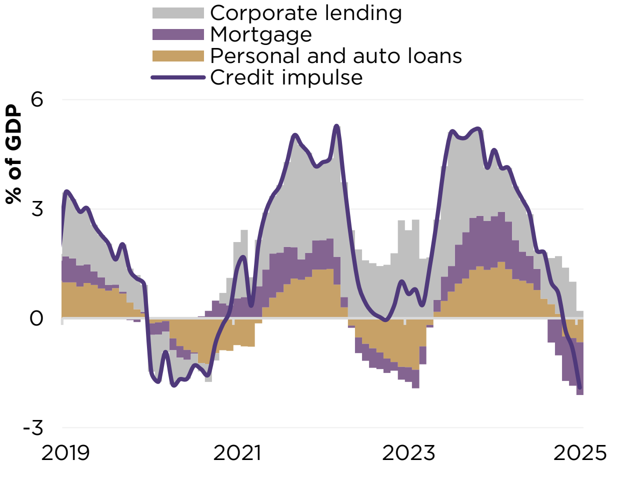


Deceleration in both retail and corporate lending. Both consumer and corporate credit growth have slowed notably, reflecting tighter financial conditions and more cautious borrowing behavior. This reduces overheating risks in the real economy.

Lending Growth Rate



Credit Impulse Decreases

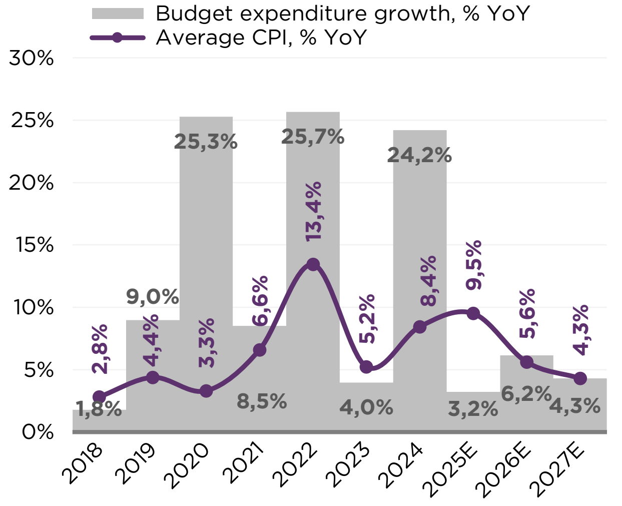


Market outlook. **Russian ruble remains stable**

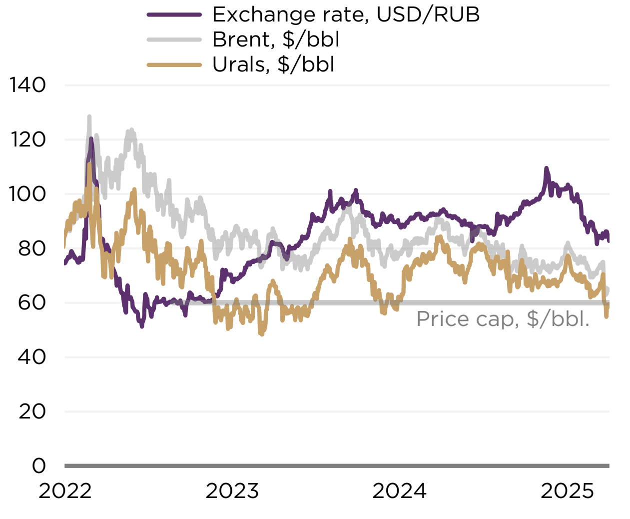
The fiscal impulse remains a key inflation driver in Russia. Large-scale government spending initially stimulated economic growth and business activity. However, as the economy reached its potential—constrained by resource and technological limits—further budget expansion began fueling inflationary pressures. In 2026–27, gradual fiscal consolidation and a reduced budget deficit are expected, which should help ease inflation.

Limited sensitivity to oil price fluctuations. The ruble has shown resilience, maintaining relative stability despite falling oil prices. This is largely due to structural shifts in the economy, including reduced reliance on energy revenues. As a result, the ruble's performance has become less correlated with commodity market swings.

Budget Expenditures and CPI



Strong Ruble Despite Oil Price Volatility

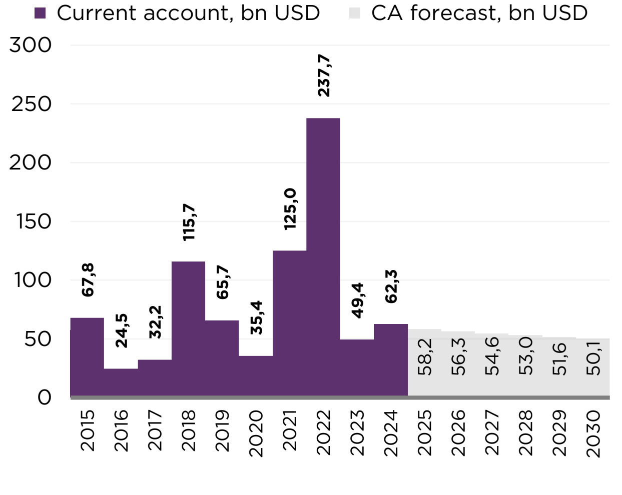


Stable ruble backed by strong current account and steady imports

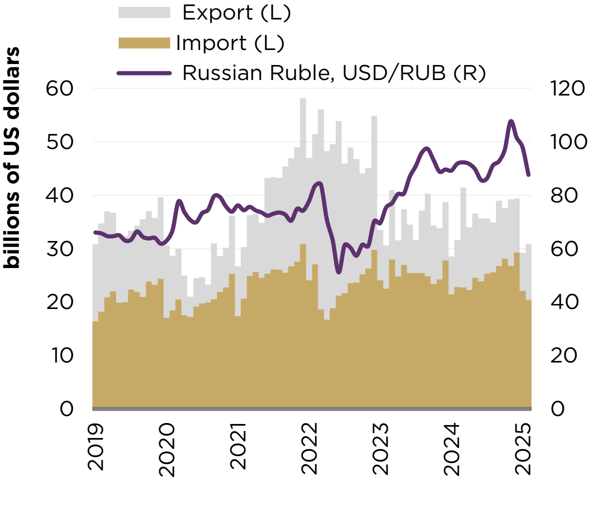
The ruble remains stable, supported by the current account surplus and restrained import activity.

In our view, this reduces the risk of imported inflation and reinforces overall macro stability. Together, these dynamics create a sustainable foundation for ruble support.

Russia's Strong Current account Contributes to Stability



Impact of Russian Export and Import on Ruble



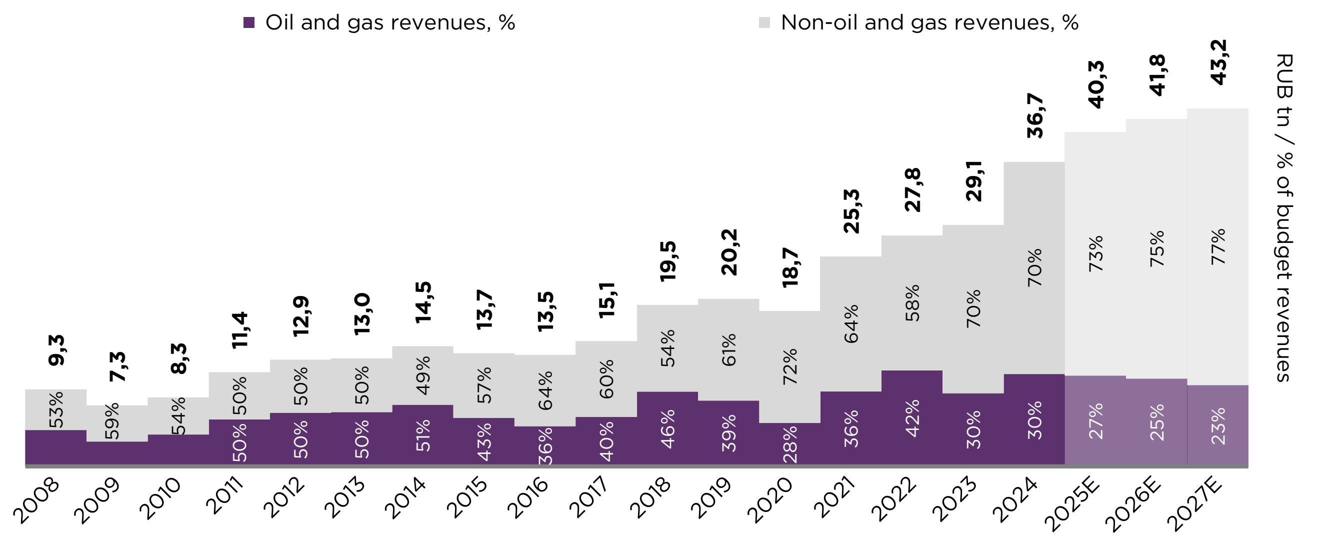
Market outlook. **Russian budget demonstrates reduced dependence on oil**

Since 2021, the share of oil and gas revenues in Russia's federal budget has nearly halved. This reflects a structural shift in fiscal policy and a move toward diversifying revenue streams beyond the energy sector.

Currently, a market-driven correction in global oil prices led to a decline in oil and gas-related budget revenues. Additionally, the ruble strengthening has placed further pressure on the budget's foreign-currency income, amplifying the nominal reduction in energy revenues when measured in rubles.

Despite this, the federal budget has become significantly less dependent on external economic factors and fluctuations in oil prices. This reduced sensitivity enhances the resilience of the fiscal system commodity against market volatility.

Share of Oil & Gas and Non-Oil & Gas revenues in Federal Budget



Macroeconomic Sensitivity to Urals Price

	2024	2025										
Urals, $/барр.	**68,1**	**80**	**75**	**70**	**65**	**60**	**55**	**50**	**45**	**40**	**35**	**30**
Real GDP growth, %	4,0%	1,9%	1,5%	1,2%	1,0%	**0,8%**	0,3%	-0,3%	-0,9%	-1,6%	-2,4%	-3,4%
Current account balance, USD bn	64	66	67	66	66	**67**	61	62	64	67	67	69
Trade balance, USD bn	132	135	136	134	133	**132**	128	128	130	132	132	133
Export	*429*	*476*	*464*	*451*	*437*	***425***	*413*	*400*	*387*	*374*	*362*	*349*
Import	*-297*	*341*	*329*	*317*	*304*	***293***	*285*	*272*	*257*	*243*	*230*	*216*
Financial account, USD bn	-65	-65	-65	-65	-65	**-65**	-65	-65	-65	-65	-65	-65
Budget deficit, RUB bn	3 079	31	644	1 376	2 029	**2 682**	3 769	4 579	5 370	6 244	7 201	8 189
Budget deficit, % of GDP	1,6%	0,0%	0,3%	0,6%	1,0%	**1,3%**	1,8%	2,2%	2,6%	3,1%	3,6%	4,1%
Inflation (year-end), %	9,5%	5,8%	6,0%	6,3%	7,0%	**7,5%**	8,0%	9,0%	10,0%	11,0%	12,0%	14,0%
Inflation (average), %	8,4%	7,8%	7,9%	8,0%	8,4%	**8,6%**	8,9%	9,4%	9,9%	10,4%	10,9%	11,9%
Key rate (year-end), %	21,0%	16,0%	16,5%	17,0%	17,5%	**18,0%**	20,0%	21,0%	22,0%	23,0%	24,0%	26,0%
USD/RUB average	93,1	90	93	97	101	**105**	110	116	122	128	134	141

Market outlook. **Strong credit quality backed by fiscal discipline**

Persistent current account surplus supports stability

This external buffer reinforces financial stability and limits reliance on external financing.

International reserves remain high vs EM peers

Russia's substantial international reserves (as % of GDP) are significantly higher than those of most EM and strengthen the country's ability to respond to market volatility.

Budget balance remains in control

Russia maintains a relatively disciplined budget approach. We expect the deficit to remain moderate and manageable within the existing policy framework.

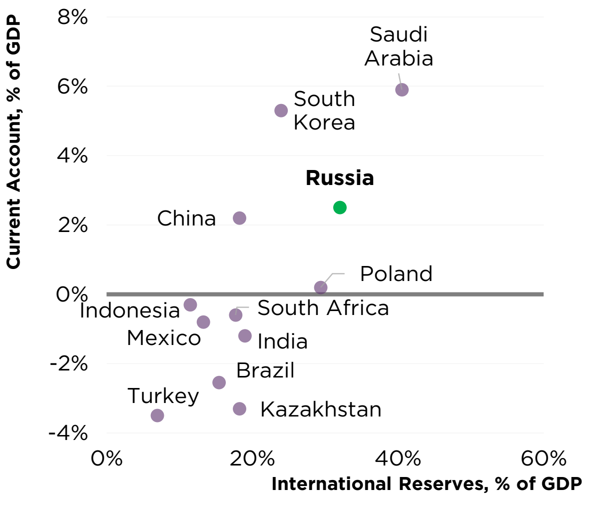
Government debt at low levels compared to EM

Russia's sovereign debt-to-GDP ratio remains one of the lowest among EM. This provides significant headroom for fiscal flexibility and supports sovereign credit quality.

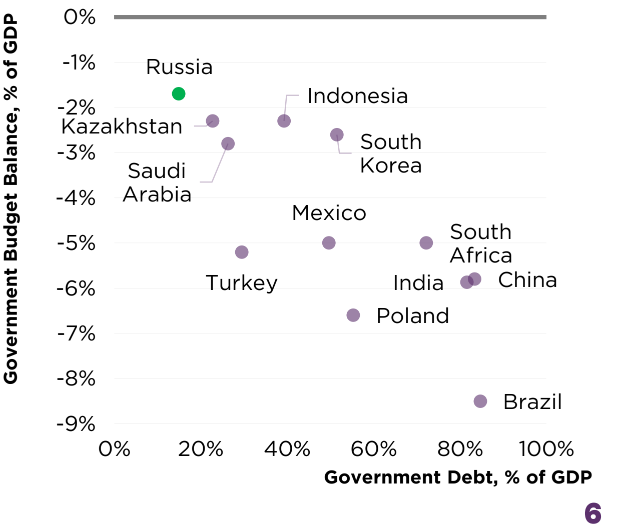
Credit Ratings and Key Fiscal Indicators

Country	Credit rating M/S&P/F	Government Debt, % of GDP	Government Budget Balance, % of GDP	Current Account, % of GDP	International Reserves, % of GDP
Russia		14,9%	-1,7%	2,5%	32,0%
Brazil	Ba1/BB/BB	84,7%	-8,5%	-2,6%	15,4%
India	Baa3/BBB-/BBB-	81,6%	-5,9%	-1,2%	19,0%
Indonesia	Baa2/BBB/BBB	39,3%	-2,3%	-0,3%	11,5%
Kazakhstan	Baa1/BBB-/BBB	22,8%	-2,3%	-3,3%	18,2%
China	A1/A+/A	83,4%	-5,8%	2,2%	18,2%
Mexico	Baa2/BBB/BBB-	49,7%	-5,0%	-0,8%	13,3%
Poland	A2/A-/A-	55,3%	-6,6%	0,2%	29,4%
South Korea	Aa2/AA/AA-	51,5%	-2,6%	5,3%	23,9%
Saudi Arabia	Aa3/A+/A+	26,3%	-2,8%	5,9%	40,5%
Turkey	B1/BB-/BB-	29,5%	-5,2%	-3,5%	6,1%
South Africa	Ba2/BB-/BB-	72,2%	-5,0%	-0,6%	17,7%

Current Account vs International Reserves



Government Budget Balance vs Debt Burden



RUB Bonds. **Attractive real yields**

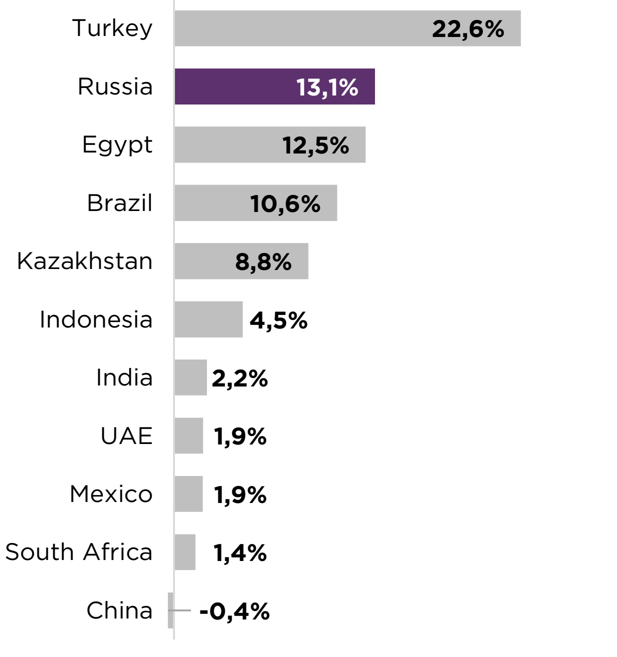
Russian bonds offer one of the highest real rates among EM peers

The real yield on Russian bonds is among the highest in the global market, with superior credit quality and resilience to shocks.

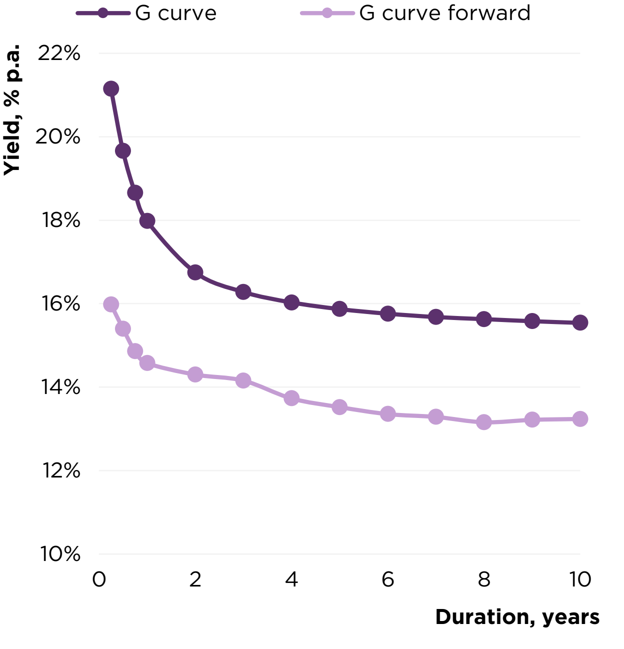
Bond market has a great timing for investment

The end of the cycle and the expectation of future rate cuts is a unique opportunity to build a high-quality bond portfolio that is expected to deliver double-digit returns over the next 1-2 years relatively compared with average CPI of 6%.

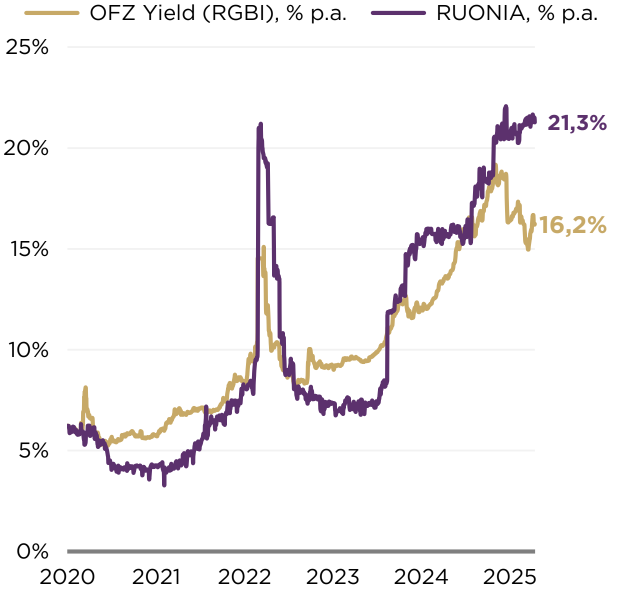
Real Yield Russia vs EM



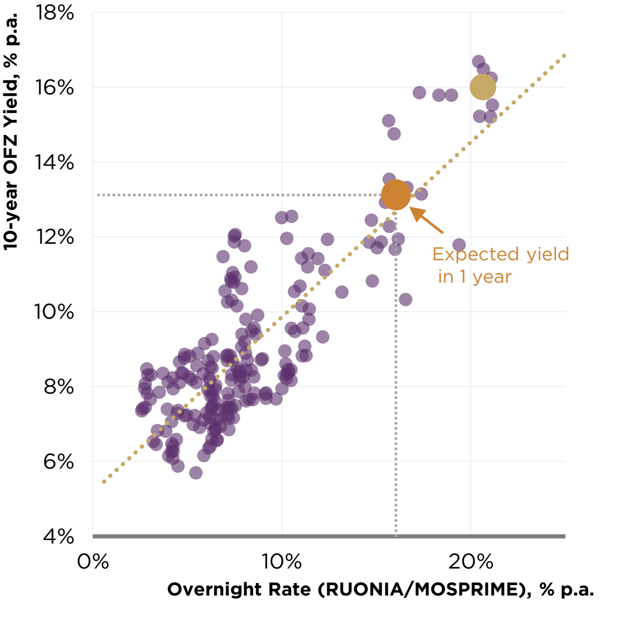
G-curve and G-curve Forward Yield



Fixed income Premium vs RUONIA



Government 10y Bonds vs Overnight Rate



RUB Corporate Bonds. **Attractive credit spread and strong credit quality**

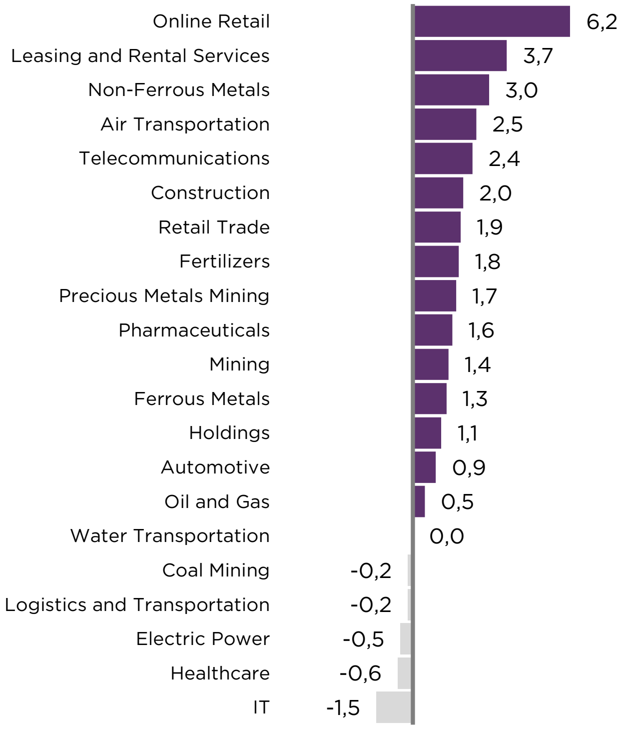
Top corporate issuers continue to demonstrate strong credit quality

Corporate borrowers maintain solid financial profiles, low leverage, and stable cash flows. This resilience supports their ability to service debt and offers investors a favorable risk-reward balance in the current environment.

Corporate bonds' spreads remain elevated

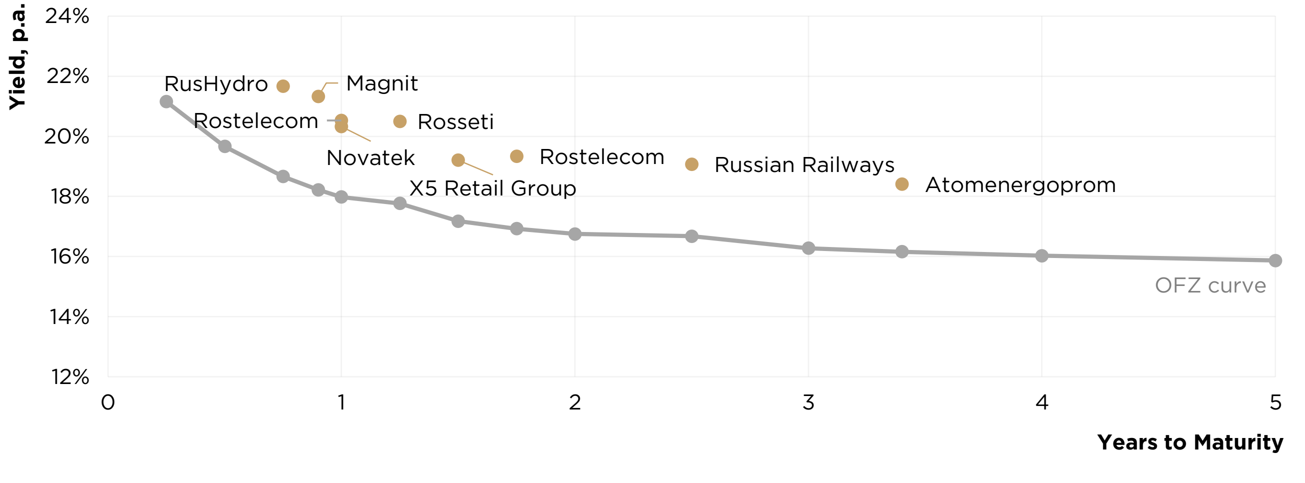
Current spreads in the corporate bond segment are significantly wider than their historical averages. The average historical spread of corporate bonds is around 80 basis points, while current levels are at 300–350 basis points.

Net Debt/EBITDA by Sector



Corporate Bonds' Spreads

Corporate Bonds Yield

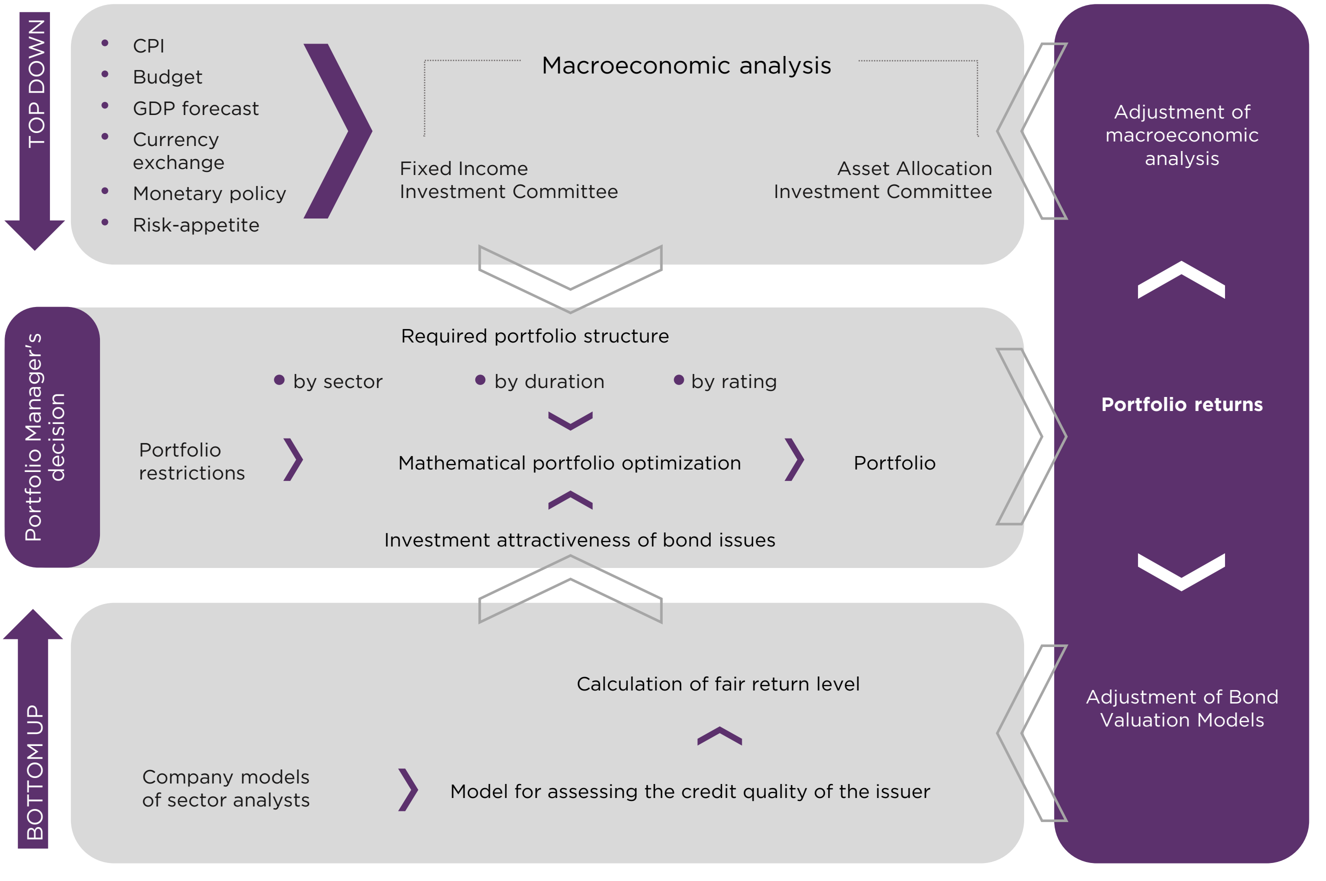


TKBIP

Bonds. **Investment process**

- The debt instrument selection process is based on risk identification, evaluation, and control, with the aim of optimizing the risk-return balance within the portfolio.
- The investment process involves internal credit models construction, yield curves view, optimal duration selection, top picks identification, and negotiating transactions under the most favorable terms.

Bonds Selection Process



TKBIP

Bonds. **Investment process**

In-house Credit Quality Analysis

Issuer`s credit risk assessment

Banks and financial institutions

- Business risk
- Capital adequacy
- Exposure to market risks
- Evaluation of potential of shareholder's support

Federal issuers

- Budget diversification and flexibility
- Potential debt burden and ability to service debt
- Tax discipline

Corporate issuers

- Future free cash flow
- Assessment of refinancing risk over the 5-year horizon
- Management quality
- Resilience to industry risks
- Potential of shareholder support
- Business scales

Assessment of credit risk and possibility of rating downgrade/upgrade

> Each model undergoes stress testing. We use sensitivity analysis to evaluate the impact of sudden and significant deteriorations in company's core business sector on its operations and financial results.
>
> This facilitates an assessment of the issuer's credit quality resilience in extreme economic conditions.

The final outcome of the issuer's credit analysis is the credibility assessment ranged in scores from 0 (lowest quality) to 1500.

The use of unique, independently developed credit models allows us to forecast changes in issuer credit quality in the future and form expectations regarding the dynamics of asset prices relative to broad market trends.

“Fair” Spread Assessment

based on in-house rating

Based on credit analysis and scores we determine a fair market yield to maturity for each bond. The yield level is adjusted to the individual issue’s specific characteristics, such as liquidity, collateral, early redemption terms, issue structure, etc. The fair yield to maturity is compared to the current market indicators to determine the future price dynamics of a specific issue.

Expected Return Calculation (HPR model)

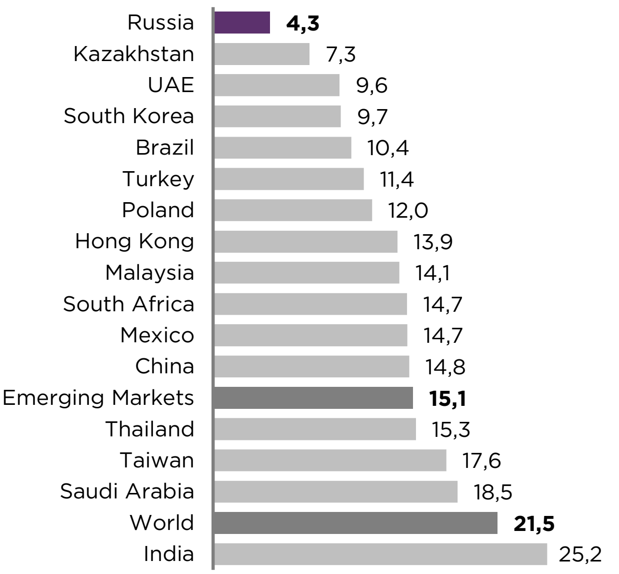
for three scenarios

$$\text{Expected return} = \sum \text{Scenario probability} \times \left(\text{Expected price change} + \text{Expected coupon payments} + \text{Expected return on reinvestment}\right)$$

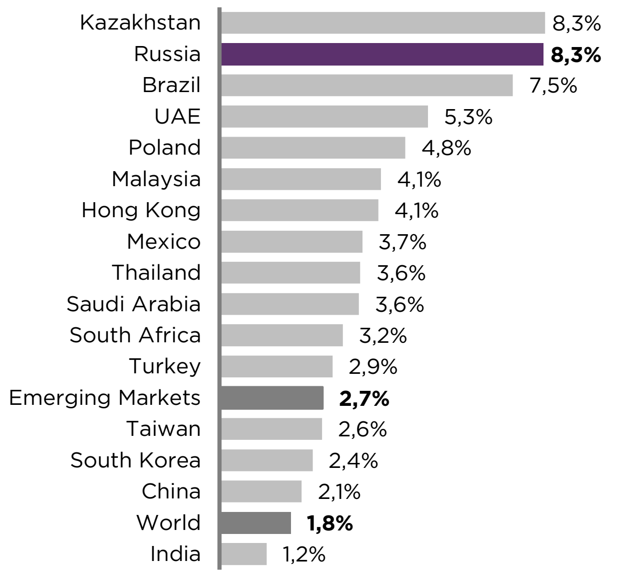
Equities. **Russian equities remain fundamentally undervalued**

- **Russian stocks** with market P/E multiples well below historical averages and emerging market peers. In our view, this reflects excessive risk premiums rather than fundamentals. The current valuation gap offers competitive risk/return ratio for long-term investors with strong upside potential.
- **Expected key rate cuts by the CBR may unlock cash flows**. Expected gradual key rate cut may act as a catalyst for reallocation into equities, unlocking cash flow. Lower rates would reduce the cost of capital and support valuations. This shift could help narrow the gap between fundamentals and market pricing.

Russia vs EM by P/E



Dividend Yield, Russia vs EM



MOEX Index Sensitivity to Key Rate Change

Cost of capital		**26%**	**25%**	**24%**	**23%**	**22%**	**21%**	**20%**	**19%**	**18%**	**17%**
Risk-free rate		19%	18%	17%	16%	15%	14%	13%	12%	11%	10%
		P/E									
		3,8	4	4,2	4,3	4,5	4,8	5	5,3	5,6	5,9
EPS	-15%	2 400	2 500	2 600	2 750	2 850	3 000	3 150	3 300	3 500	3 700
	-10%	2 550	2 650	2 800	2 900	3 050	3 150	3 350	3 500	**3 700**	3 900
	-5%	2 700	2 800	2 950	3 050	3 200	3 350	3 500	3 700	**3 900**	4 150
	0	2 850	2 950	3 100	3 200	3 350	**3 500**	**3 700**	3 900	4 100	4 350
	5%	3 000	3 100	3 250	3 400	3 550	3 700	3 900	4 100	4 300	4 550
	10%	3 150	3 250	3 400	3 550	3 700	3 900	4 050	4 300	4 500	4 800
	15%	3 250	3 400	3 550	3 700	3 850	4 050	4 250	4 500	4 750	5 000

Equities. **Investment process**

The Portfolio Manager's goal is to identify and select equities with the most attractive risk/return ratio.

We invest in equities that meet the following key criteria:

- Valuation upside – the stock is undervalued by the market, with the company's expected sustainable free cash flow yield exceeding the required cost of equity.
- Qualitative strength – the company demonstrates strong non-financial characteristics, including alignment between majority and minority shareholders, sound corporate governance, and a high level of business transparency, etc.

The investment process is driven by rigorous company specific bottom-up proprietary fundamental analysis:

- **Preliminary screening**:
  - Shares of all large-capitalization companies undergo detailed analysis.
  - Selective screening is applied to mid-cap and small-cap stocks to pick those with sufficient free float and disclosure to be sufficient for potential investment
  - At this stage, the equity investment universe of 200+ stocks is narrowed down to approximately 50 names for further analysis.
- **Comprehensive fundamental analysis is conducted for each company in Russian universe.**

Step 1. **Preliminary Screening**	Step 2. **Company Analysis**	Step 3. **Portfolio Construction**
Filter out: ▪ Low liquidity — 10% equity in free float < 1% AUM ▪ Extremely leveraged — Net debt/ EBITDA (av. for 7 yrs) > 5 ▪ Red flags among qualitative factors — Low transparency — Lack of alignment of interests of majority and minority shareholders — Fraud filter	▪ Construction of financial models for companies ▪ Assessment of the relative attractiveness of stocks ▪ Estimation of the level of conviction* **Level of conviction is a qualitative assessment of the probability of achieving forecasted indicators for each issuer.*	▪ Relative attractiveness of shares ▪ Liquidity constrains ▪ Portfolio structure constrains

Forecasts

Macroeconomic Indicators Forecast

	2025	2026	2027
Budget deficit, RUB bn	2 835	2 845	2 008
Budget deficit, % of GDP	1,33%	1,23%	0,82%
Current account balance, USD bn	63	61	64
Trade balance, USD bn	130	128	130
Export	425	441	453
Import	-295	-313	-323
Financial account, USD billion	-65	-65	-65
Unemployment rate, %	2,3%	2,5%	2,7%
Brent, USD/barrel	70	70	70
Urals, USD/barrel	60	60	60
USD/RUB average	105,0	112,0	118,7
Real GDP growth, %	0,7%	1,6%	2,0%
Consumption	2,0%	2,4%	2,4%
Investments	-4,3%	1,7%	1,7%
Inflation (year-end), %	7,5%	4,5%	4,0%
Key rate (year-end), %	18,0%	14,0%	11,0%

Expected Returns Forecast

Asset	Status quo (base case)	Escalation (negative)	Resolution (positive)
Liquid assets	19,0%	25,0%	17,5%
Corporate floating-rate bonds	21,8%	28,5%	19,9%
Deposits	20,5%	26,5%	19,0%
Government bonds 1 yr	19,4%	23,5%	18,4%
Government bonds 3 yr	28,8%	12,6%	35,0%
Government bonds 5 yr	27,3%	8,3%	39,1%
Government bonds 7 yr	30,0%	8,1%	44,1%
Government bonds inflation-linked	26,3%	8,3%	33,8%
Corporate bonds	24,3%	18,5%	26,8%
Equities	31,4%	9,0%	44,0%
FX-bonds, USD	10,6%	3,1%	13,1%
FX-bonds, RUB	24,6%	36,1%	13,1%
Gold price, USD/oz	*3500*	*4000*	*3000*
Gold, RUB	23,3%	59,4%	0,0%

TKBIP

Data as of 31.03.2025

22 years

Experience in Asset Management

About TKB Investment Partners

- TKB Investment Partners is one of the largest non-state asset management companies in Russia.
- We manage long-only, unlevered investments of local and international clients, including largest non-state pension funds, insurance companies, non-profit organizations and private investors.
- Profound experience across all market caps in listed Russian securities.
- Active management via our proprietary alpha-driven investment process, with absolute return, high conviction and benchmark-relative strategies in both equities and fixed income.
- International standards for investment process, risk management and compliance.

OUR ACHIEVEMENTS

2023

The best asset management company for institutional investors

TKBIP retained its leading role in the institutional asset management sector in Russia.

2024

Best Asset Management Team

The TKBIP asset management team was recognized as the best by the Investment Leaders Award expert council.

2020

BNP Paribas Russia Equity fund: bronze status by Morningstar

Fund managed by TKBIP continues to benefit from one of the more experienced teams in the space and a well-structured investment process.

2019

TKBIP Advises World's First ESG Russian Equity Fund

Alfred Berg Ryssland, a Swedish fund on Russian equities under TKBIP's' advisory, integrated ESG strategy.

2018

Parvest Equity Russia Opportunities fund: winner of Lipper awards

International fund managed by TKBIP, received UK Lipper Fund Awards for best performance in "Russian equities" category.

2002

founding of the company

2012

Leader of the Thomson Reuters Extel Survey

Seven TKBIP analysts and portfolio managers were included in the top ten in the Russian region ranking.

2017

Parvest Equity Russia fund: top rated fund by Morningstar

The Parvest Equity Russia fund, managed by TKBIP, received the top rating of five stars from Morningstar

CONTACTS

Information center: **8 (800) 700-07-08**

Website: **www.tkbip.ru**
Email: **info@tkbip.ru**
Telegram: **https://t.me/tkbip**

SAINT PETERSBURG

Russian Federation, 191119,
Marata street, 69-71, lit. A

8 (812) 332-73-32

MOSCOW

Russian Federation, 125047,
Lesnaya street, 5

8 (495) 660-32-00

Disclaimer

The scenarios presented in this material consider only market risks. The portfolio manager takes all reasonable and available measures to reduce other risks. The portfolio manager takes all reasonable steps within their control to achieve the specified parameters but does not guarantee their unconditional adherence. The data on returns or other results reflected in this material do not account for fees, taxes, or other expenses.

This material has been prepared by TKB Investment Partners (JSC).This material may contain data intended for qualified investors, created solely for informational purposes, and does not constitute: 1. An offer or solicitation for the purchase or sale of any securities or financial instruments; 2. Information upon which its recipient may rely in connection with any contract, agreement, or arrangement; 3. Financial or investment advice, consultation, or individualized investment recommendation.

Any opinions included in this material, unless otherwise specified, are provided by TKB Investment Partners (JSC) as of the specified time and may be changed without prior notice.

TKB Investment Partners (JSC) reserves the right, at its discretion, to modify or not update the information and opinions contained in this material.

This information is not an individualized investment recommendation, and the financial instruments or transactions mentioned may not align with your financial position, investment objectives, risk tolerance, and/or expected returns. TKB Investment Partners (JSC) is not liable for any potential losses resulting from transactions or investments in the financial instruments mentioned in this information.

Investors should consult with their legal and tax advisors regarding any legal, accounting, or tax matters related to investing in any financial instruments, to make an independent decision regarding the suitability of such investments for their own requirements and the consequences of such investments.

Please note that different types of investments, information about which may be contained in this material, carry varying degrees of risk and may not guarantee the return of invested capital. They may not be suitable or advantageous for any particular client or potential client, or for a specific investment portfolio. Given economic and market risks, there can be no assurance that any investment strategy mentioned in this material will achieve its investment objectives.

This material does not guarantee or promise future performance or returns from investment activities. Past investment performance is not a guarantee of similar future results, and the state does not guarantee investment returns. All past data is documented. There are no guarantees of profit or income from financial instruments. The amount of return may be affected, among other factors, by the investment strategies and objectives of the financial instrument and significant market and economic conditions, including interest rates and overall market conditions. Different strategies applied to financial instruments may have a significant impact on the results described in this material. Investors may not recover the amount they initially invested. There is a risk of total loss of the initial investment amount.

TKB Investment Partners (JSC) is a legal entity registered in accordance with the laws of the Russian Federation (OGRN 1027809213596), with its registered address at 69-71 Marata Street, St. Petersburg, 191119, Russia. The license for investment fund management, mutual fund management, and non-state pension fund management was issued by the Russian Federal Securities Commission on June 17, 2002, under No. 21-000-1-00069, with no expiration date. The license for professional securities market activities, issued by the Russian Federal Service for Financial Markets on April 11, 2006, under No. 040-09042-001000, has no expiration date. Phone: (812) 332-7332. Before entering into a contract, interested parties can familiarize themselves with the asset management terms, obtain information about the asset manager, and other information required by Russian law on the manager’s website www.tkbip.ru and by phone at (812) 332-7332.