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# Russian Market Faces Gloomy Prospects After Good First Half for Emerging Stocks

By The Moscow Times

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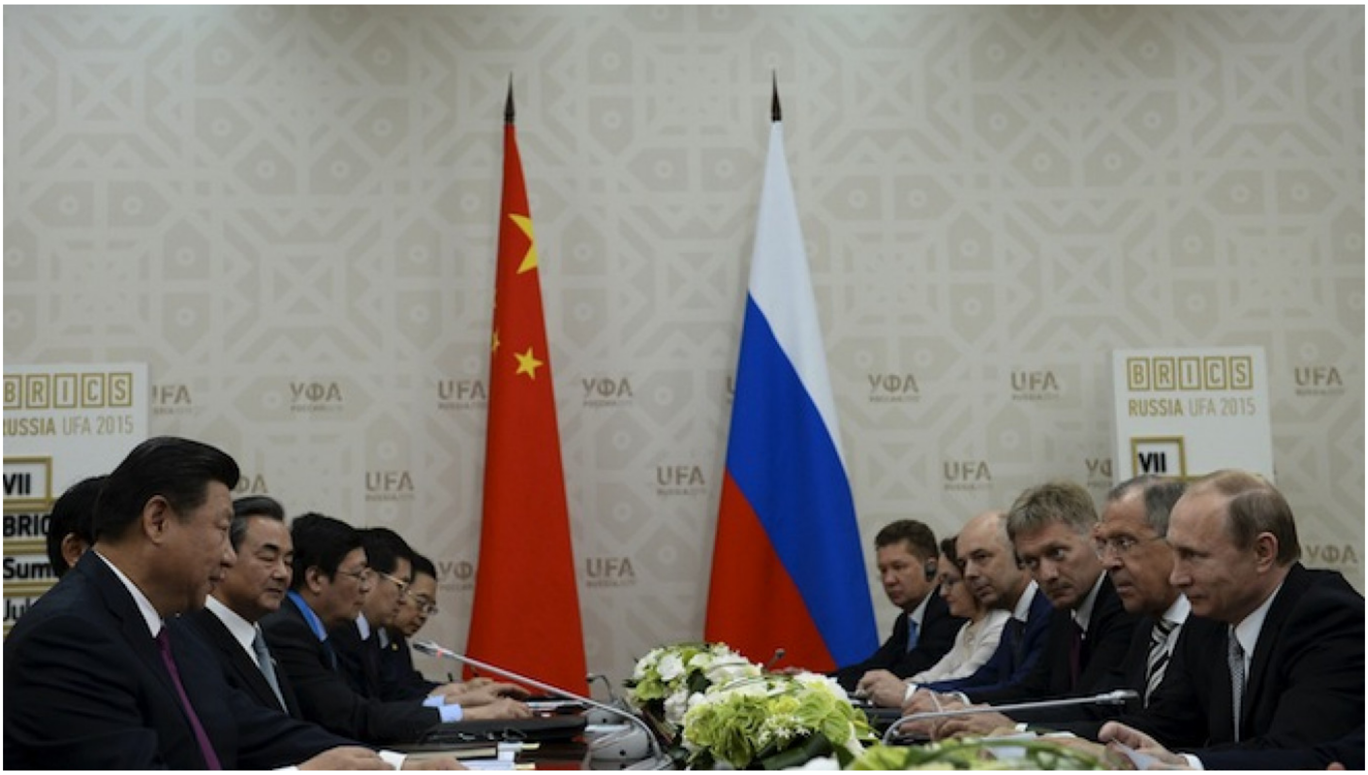


Members of the Russian delegation, led by President Vladimir Putin (R), meet with representatives of the Chinese delegation, led by President Xi Jinping (L), in Ufa, Russia, July 8, 2015.

LONDON — Mutual funds investing in Russia and China were the top emerging equity performers in the first half of 2015, though a shakeout in Shanghai and weaker oil prices may erode those gains in coming months.

Funds specializing in eastern and central Europe topped the list, based on data compiled by Lipper, a fund ratings, ranking and information company belonging to Thomson Reuters. The data relates to funds sold in Britain.

Eastern Europe-dedicated funds are usually dominated by Russia which comprises 67 percent of MSCI's East Europe index.

Moscow stocks rose 18 percent in dollar terms between January and June after last year's 40 percent drop, a rise that was driven mainly by an oil's 45 percent bounce in this period.

Another eastern European market, Hungary, has also done well, helped by central bank rate cuts and signs of recovery in Germany and the euro zone. In particular, Hungarian stocks returned 17 percent.

Chinese stocks are now in the red after a 30 percent slump in mainland markets that started in mid-June but offshore-listed shares gained almost 20 percent in dollar terms between January and end-June.

The Russian and Chinese gains, after years of weakness, wrong-footed many emerging funds. But it proved a good half-year for BRIC funds which invest in the "big four" of Brazil, Russia, India and China.

"We did very well because of China though we do not participate in the A-share market," said Kunal Ghosh, a portfolio manager at Allianz Global Investments, whose BRIC and Global EM equity funds topped the league table with 18 and 14 percent returns.

"We selectively bought high-end good companies with solid business models and 5-7 percent dividend yields and we have added to those as the selloff happened."

Julian Mayo, whose Charlemagne Magna Global Emerging Market funds is in the top 10 with first-half returns of just over 10 percent, said the top performers in his portfolio were Hong Kong shares in Chinese insurer Ping An and online retailer JD.com, which last year listed in New York.

Ping An shares rose 80 percent while JD.com gained more than 50 percent in the first half.

"We were neutral on China overall but what drove our performance was idiosyncratic stock-picking," Mayo said.

"There was a lot of exuberance which has now been punctured so markets are down to more sensible levels, but Chinese earnings are not particularly strong ... it's going to be about stock-picking again in the second half."

It looks unlikely that Russia- and China-focused funds will repeat their performance in the second half of 2015, with the latter likely to be pressured further by slowing growth and fears of excessive debt in the economy.

Russian stocks are also seen flatlining if China, looming U.S. interest rate rises and the potential end of sanctions on Iran prevent oil prices from rising further.

But Ghosh said he recently started to close his underweight position on Russia in his EM funds while adding selectively to India, which has been flat after hefty gains in 2014.

At the bottom of the pile this year are Latin America-dedicated equity funds, which comprised 15 of the bottom 20 funds by performance, according to Lipper.

That was down to Brazil, which is suffering the worst economic recession in a quarter century.

Commodity exporters such as Peru and Chile are being hurt by weak metals prices and Mexico is vulnerable to U.S. interest rate rises.

Brazilian stocks fell about 15 percent in dollar terms.

"The Brazilian economy remains weak ... The macro outlook is going to improve but very slowly," Mayo said, adding that he was overweight Mexico.

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