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Deal Book: Who's Buying Russian Stocks?

By Stephen Gandel and Jason Karaian

On the day Russia invaded Ukraine, Russia's main stock index lost a third of its value. As Western sanctions were announced, the ruble crashed and Russians lined up at A.T.M.s to withdraw cash. The Moscow Exchange closed, and officials didn't say when it would reopen.

A week later, in an interview on live television in Russia, a financial analyst was asked about investment strategy. He answered by raising a drink and delivering a somber toast to the demise of a "dear comrade," the country's stock market.

But on Thursday, almost a month after the market closed, trading partly resumed.

Russia's stock market is hardly in good health. Its fragile state is a reflection of Russia's generally precarious financial situation, with its economy increasingly isolated and its institutions unable to function as they did before.

When the market reopened, only 33 stocks (out of several hundred) were allowed to trade, under heavy restrictions. Foreign investors couldn't sell their holdings, and there was a blanket ban on short-selling, which stopped traders from betting on falling prices. The government had pledged to spend up to $10 billion buying shares. Trading was open for about four hours each day.

A White House adviser called it "a Potemkin market opening."

In part because of the restrictions, the market didn't crash, as many had predicted. The benchmark index rose by a bit less than 1 percent in the two days after the reopening. But the market, such as it is, is down 20 percent from the day before the war, and more than 30 percent lower since the start of the year.

The Russian stock market was never as important to its national economy as its counterparts in the United States, Europe and elsewhere are to theirs. Today, the total value of Russia's market is about $400 billion, or roughly the same as Walmart. Trading in Moscow is — or was — dominated by foreign investors, who own the majority of shares that are available to trade.

That said, the ranks of retail investors in Russia, though relatively small, have been growing. Jacob Grapengiesser, a partner at the Swedish investment firm East Capital, was based in Russia until recently. Before the war, he said, his wife's younger co-workers asked her for stock picks after they found out what he did for a living. "That's not something that would have happened even a few years ago," Mr. Grapengiesser said.

But investing in Russian stocks is a much different proposition now. Sanctions are hitting the Russian economy hard, and the measures that Moscow is taking in response, including restricting access to foreign currency and raising interest rates, further limit what companies can do. Investors who screen their investments according to environmental, social and governance, or E.S.G., principles are also reconsidering their exposure to all things Russian.

Analysts at IHS Markit expect the Russian economy to shrink 11 percent this year and inflation to more than triple, to over 20 percent. The country won't fully return to its prewar size until the 2030s, according to their forecast.

Russia's public companies, which tend to be the biggest and most international in scope, are increasingly cut off from foreign markets, especially if their owners are under Western sanctions. S&P Global Market Intelligence recently estimated that the average public company in Russia has a 1-in-5 chance of defaulting on its debt.

Russian companies with listings on foreign markets, which continued to trade after the Moscow market was closed, have seen their values plunge to nearly zero. The fact that companies are worth something at home but considered worthless abroad neatly captures how comprehensively the Russian market has been severed from the rest of the world.

For some, that's an opportunity. Mr. Grapengiesser of East Capital said he had been getting "three calls a day" from foreign hedge funds looking to buy his Russian shares at steep discounts. (The firm holds hundreds of millions of dollars in Russian stocks across its funds.) He isn't interested in selling, and he doesn't know how he would complete the transactions anyway, since as a foreign-owned fund his holdings are frozen.

Even so, "the market reopening has performed above my expectations," Mr. Grapengiesser said of the Moscow Exchange's staged approach. And with Russians' money now effectively trapped in the country, more people may decide to invest in the stock market, he said.

Other countries have closed their stock markets for longer periods than Russia just did. In recent history, Greece closed its market for five weeks in 2015 during its debt crisis, and Egypt halted trading for about eight weeks in 2011 amid the Arab Spring uprising. Both markets fell sharply when they initially reopened, but regained their footing and have been trading ever since.

The longest market shutdown in U.S. history was a four-month closure of the New York Stock Exchange during World War I. William Silber, a finance professor at New York University's Stern School of Business, studied that episode and said market shutdowns tended to accomplish their goals.

Russia has prevented foreign investors from selling rubles for dollars. In New York, the 1914 restrictions were designed "to stop Europeans from selling their shares and cashing out their dollars for gold, and it worked," Mr. Silber said.

During the 1914 closing, an unofficial trading floor sprang up in a building in downtown Manhattan, allowing investors to trade. Mr. Grapengiesser said no secondary markets had appeared yet for Russian stocks. But his firm and others have been in discussions about how to allow foreigners to trade with one another. And he said some overseas markets were talking about facilitating trading in Russian shares.

A stock market often serves as shorthand for how well an economy is doing, so the reopening of the Moscow Exchange is symbolically important for Russia, even if it comes with major caveats. But as Russia's economy becomes more isolated, a full revival, with some semblance of normal trading, seems further away. So does building credibility with a wider set of investors.

"It's not really a proper market," said Timothy Ash, the head of emerging market investments at BlueBay Asset Management in London. Russian assets are "untouchable at the moment," he said, and "long term, even if Russia pulls out of Ukraine, I think investors will remain skeptical."

What do you think? What's next for Russia's stock market? Let us know: dealbook@nytimes.com.

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