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The Russian Revolution

Two words dominate discussions on Russia: *Putin* and *Oil*.

Putin because as President since 2000, Vladimir Putin has presided over a startling period of economic expansion: the Russian economy expanded by six-fold and average monthly income jumped seven-fold. What's more, Russia is now facing a power transition.

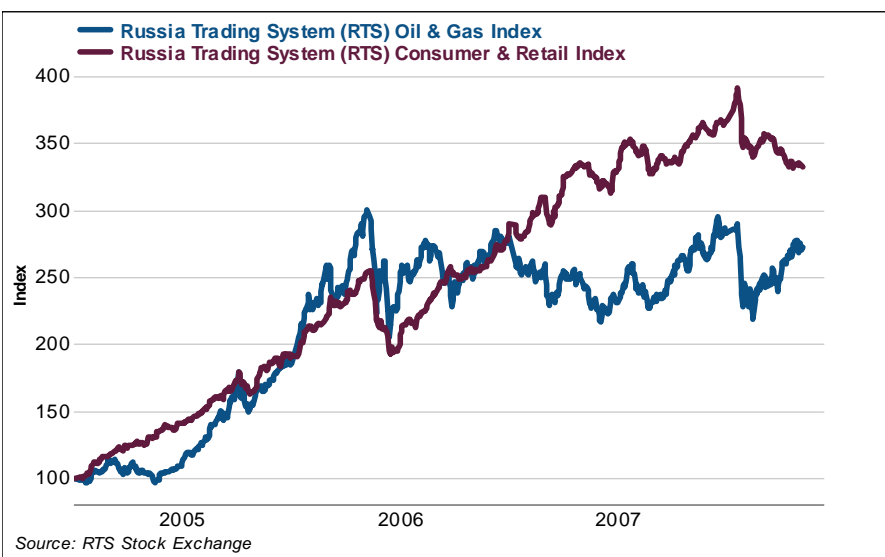
Oil because with crude oil prices hovering near record-highs (the Urals All Baltic Ports crude oil price is up over 300% since 2000) and Russia is the second-largest oil exporter in the world, behind Saudi Arabia. The concern is that, since oil exports account for one-fifth of GDP, the Russian economy teeters on a narrow foundation. A slump in oil could create an economic road bump at the very least.

But, maybe more interesting than looking at data is to consider the magnetic appeal of Russia's growing economy. Wal-Mart recently announced the appointment of a new executive specifically to spearhead exploration of "retail business opportunities in Russia and neighboring markets."

While Americans dismiss the discount retailer as a familiar fixture of suburban communities, Wal-Mart's maneuvers in Russia send a signal about the future of Eastern Europe's burgeoning consumer class. Despite the prevalence of Soviet-era kiosk stores, retail spending jumped 12% in Russia over the last year.

Even more interesting is that while other companies are just now drafting plans, Swedish home furnishing giant IKEA opened its first Moscow store in 2000, and today operates ten stores in seven different Russian cities. In fact, oil stories and political intrigue may steal the headlines, but the Russian consumer/retail sector has quietly outperformed energy stocks since 2005 (see chart below). Investors in this sector can also sleep better at night knowing the state has largely let market rule dictate development in this promising segment of the Russian growth "story".

Russian Consumer & Retail Sector Stocks Thrive



Background

President Vladimir Putin relinquished the reins of power to 42-year old Dmitry Medvedev on May 7th. Is this the end of an era or only the beginning?

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