The BIST has strengthened its positive decoupling, and increased above-100,000 index levels in June…

Having decoupled positively from global equity markets, the BIST100 has reached a record high index value of 100,990 in June…

Having started the month below 98,000 levels, the BIST100 continued to decouple strongly in June, reaching a new record high index value of 100,990 within the month. Despite the decline in risk appetite towards EMs, the BIST has strengthened its decoupling, performing better than the MSCI World and EM indices both in US$ and TRY terms. The BIST100 closed 2.97% higher in June at 100,440; the industrials index further outperformed the BIST by increasing 5.65%. Investors have maintained interest in the BIST and TRY-based assets due to the sharp decline in oil prices in June combined with its discount multiplier compared to peers. Hereupon, recommendations to buy Turkey against selling Russia and Brazil were also effective. In this way, the BIST presented the best performance among major global indices, while Russia and Brazil were in the worst performers.

The Fed has increased its policy rate by 25bps to 1.00%-1.25%…

The US Federal Reserve's FOMC has increased policy rates by 25bps to1.00%-1.25% by a plurality. FOMC members have not changed their rate increase expectations for 2017 following this meeting; the members expect one more 25bps rate increase this year. The Fed also stated at this meeting that it was planning to gradually start reducing its balance sheet within the year. In her post-meeting statements, Fed Chair Yellen has said that the initial cap for reducing the balance sheet would be set at US$10bn, while also pointing out that lower inflation rates could be misleading as they might result from one-time events. Chair Yellen has also reiterated her 'gradual' emphasis as regards future rate increases. Nevertheless, plans to reduce the Bank's balance sheet were interpreted as hawkish by the markets. Following this meeting, risk appetite towards EMs has somewhat declined, resulting in short-term selling pressure in the markets. However, the decline in risk appetite has remained limited, as both the Fed and ECB are actually continuing their expansionary monetary policies.

The CBRT has left its policy rates unchanged...

The CBRT maintained its policy rates steady at its meeting in June, in line with market expectations. The MPC has underlined the strength of economic activity in the minutes of this meeting. The committee has also noted that tight monetary policy should be continued due to high inflation rates. Meanwhile, the CBRT has continued to keep the weighted average funding rate at 11.95%s.

Markets will follow the Fed's policy decision and messages on balance sheet reduction in July…

In July, the markets will mainly concentrate on the US Federal Reserve's FOMC and other major central banks' policy meetings. Fed Chair Yellen's and FOMC members' disclosures regarding the Bank's plan to reduce the Fed's balance sheet will especially bear importance; the markets do not expect any rate increase decisions from the Bank's meetings in July and September. Recent data and concerns regarding President Trump's policies – the latest being the healthcare bill delay – also do not support such a decision at those two meetings. Investors will also follow geopolitical developments in Qatar, and especially in Syria in July.

The EMs have decoupled slightly negatively in June; fund flows towards these regions may weaken in July and be followed by profit takings. The decline in oil and commodity prices may weaken or stop fund flows towards EMs, although fund flows may continue towards Turkey as it is a net oil-importer.

The BIST may face some profit taking in July…

Domestically, the focus will be on the CBRT's policy decision, and also on Fitch's rating review. The domestic markets, especially the BIST have been outperforming their peers following the April referendum, and have strongly continued their outperformance in June as well. This outperformance is expected to be prolonged throughout the year with the BIST's relatively more reasonable valuations, as it had been decoupling significantly negatively over the past year, and also due to the decline in oil prices. However, having performed strongly in June, the possibility of swift profit taking in July is also high.

We maintain the distribution of our portfolio in July…

The past 6 years' trend indicates that the BIST100 index declines by about 5% within the month of July, yet closes the month on just a slight decline. Similarly, the market may face some profit taking this July as well, with the recovery in oil prices and the reversal of the Buy Turkey-Sell Russia trade. Meanwhile, any profit taking/correction in the major global equity markets in July may be observed excessively at the BIST, due to its recent strong positive decoupling. And should oil prices continue to decline and global risk appetite be preserved, possible profit taking may remain limited, and the BIST may continue to decouple positively. In light of these expectations, we maintain the distribution of our portfolio at 55% in bonds, 15% in FX and 30% in equities.