

Breaking record levels, the BIST has decoupled positively in April...

The BIST100 has decoupled positively, testing new record-high levels and became one of the best performing markets in April...

With the resolution of political ambiguity, the BIST100 index has tried a new record-high level of 95,196. The BIST thus, became the strongest performing market among the MSCI indices in April, decoupling strongly positively both in TRY and US\$ terms. The strong upturn of the index was led by the banking sector stocks, which were already trading at quite lower multiples when compared to their peers, supported with their positive earnings expectations. Global risk appetite has also increased in April with the resolution of the elections in the Netherlands in a market-friendly way, the centrist and pro-EU Macron winning the first round of French Presidential elections, and supported by the better than expected data announcements from the US, increasing expectations that the US Federal Reserve would not rush its rate increase decisions. The markets have welcomed the most recent meeting minutes of the Fed indicating that the Bank would resume its rate hikes at a gradual pace this year. However, discussions about reducing the size of its US\$4.5tn balance sheet were negatively perceived by the markets. The Fed is not expected to raise its policy rates at its meeting in May. Yet, in this context, in addition to the probability of a rate increase decision at its June meeting, the Fed's strategy on, and timing of, the reduction of its balance sheet will also be followed.

The Fed has signaled that its gradual rate increases will continue...

The CBRT has raised the late liquidity window (LON) interest rate by 50bps to 12.25% at its April meeting, surprising market participants expecting no change in rates (all other rates excepting the LON were left unchanged). The MPC has maintained its expression of 'a gradual recovery in the economic activity' in the minutes of this meeting as well, while current elevated levels of inflation are emphasized posing risks to pricing behavior. Accordingly, the Committee has shared its decision to strengthen monetary tightening in order to contain deterioration in the inflation outlook. The CBRT has thus, gained further market credibility, accentuating its determination to contain inflation by increasing the LON rates, while circumstances were availing to maintain them steady.

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In May, the markets will mainly focus on the US Federal Reserve's rate decision and the minutes of its FOMC meeting, coupled with statements to be made by its various FOMC members. Further details on the US tax reforms and President Trump's other policies will also be followed. Meanwhile, the second round of the French Presidential elections will be another important topic that will be followed; the first-round success of the pro-EU Macron had led to a short-term rally in the markets. Then, the probability of the anti-EU candidate Le Pen winning the second round of elections could cause significant selling pressure in all markets led by Europe. Also, recent years' performances of the markets have proved the "Sell in May and go away" adage over and over again. The recent rally in the markets leading to record-breaking index levels in many markets and also at the BIST thus, has raised the risk of this strategy holding true. Yet, any such selling is likely to be in a manner of profit taking rather than a breaking of the recent trends.

Markets will follow the Fed's policy decision and FOMC members' statements in May...

The Turkish electoral authority on April 27th released the official tally for the country's referendum results. Following this announcement, President Erdoğan is expected to return to the AKP at the Party's extraordinary convention to be held on May 21st, and a cabinet change is also expected to take place before this convention. The market impact of these events are expected to be limited as they have already been within expectations. In the meantime, developments regarding the relations with the EU, which were strained before the referendum, will also bear importance for the performance of the markets following the Council of Europe's voting to reopen its monitoring procedure on Turkey. Also, the developments in Syria will be followed. Macro-economically, the inflation data will bear importance as the Central bank Governor Çetinkaya also drew attention. Though the impact of which is expected to be relatively less significant on the performance of the markets, the S&P's review of Turkey's credit rating will also be followed.

The BIST may face some profit taking in May...

The TRY-based assets, which had outperformed in April are likely to sustain this performance in the first couple of weeks in May as well. However, profit takings are expected to prevail afterwards, with the recent outperformance raising the odds, coupled with the "Sell in May and go away" adage. The past 6 years' trend also confirms this prospect. That said, we expect the underlying uptrend in the market to continue following any possible profit takings, thanks to measures taken by the government in order to quicken the markets and support growth, such as the credit guarantee fund and sectoral tax reductions and incentives, the decrease in volatility in the currency markets and possible upwards revisions to 2017E growth expectations.

We maintain the distribution of our portfolio in May...

In light of these expectations, we maintain the distribution of our portfolio at 55% in bonds, 15% in FX and 30% in equities.

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