The BIST advanced notably in October, despite continuing negative decoupling of TRY-based assets…

The uptrend at the BIST remained strong in TRY terms in October as well, despite the negative decoupling of TRY-based assets…

Having started the month slightly below the index level of 103,000, the BIST100 quickly retreated to 99,200 levels within the month, due to the diplomatic dispute with the US resulting in a suspension of travel visa services, and the referendum in Northern Iraq. Still, the recovery has also been as fast; the benchmark index closed with a monthly advance of 7.03% at 110,143. Meanwhile, the banking sector index continued to underperform the industrials, where strong growth expectations for 3Q17 had been supporting share performances. However, due to sharp TRY depreciation, the BIST decoupled negatively from the other emerging markets in October.

The US Federal Reserve's September FOMC meeting minutes indicated that all FOMC members agreed that the Fed should start reducing its balance sheet in October. FOMC members have also suggested that a further rate increase would be appropriate in December in their various speeches during the month. Meanwhile, towards the end of the month, the focus turned to the replacement of the Fed Chair, after Ms Yellen's term ends in February. The rising possibility of Mr Taylor taking office had led to an increase in the DXY index and Treasury yields. Yet the emergence of Powell – considered more dovish for defending a gradual path of rate increases– as a leading contender later eased pressure on the markets.

Fed FOMC members suggest that a further rate increase would be appropriate in December…

The ECB has maintained its policy rates unchanged at its latest monetary policy meeting in October, yet announced that it would reduce its bond-buying programme to €30bn per month, down from the current level of €60bn per month. The central bank has decided that this reduction would be applied from January 2018 onwards, and that QE would continue for nine months longer than previously announced, until September 2018, or beyond if necessary, until the Bank's Governing Council sees a sustained adjustment in the path of inflation, or if financial conditions become inconsistent with progress towards this sustained adjustment. The European markets have welcomed the development, pricing it positively.

CBRT maintained rated unchanged…

Meanwhile, the CBRT has maintained its policy rates unchanged as expected at its latest meeting in October. The MPC has stated that recently released data indicates strong economic activity, while adding that the current elevated levels of inflation and developments on the core inflation outlook continue to pose risks to pricing behavior, and hence that it would maintain its tight stance. The TRY, considered to be among a fragile group of currencies, continued to depreciate following the CBRT's MPC announcement, coupled with rising expectations of a Fed interest rate hike in December.

Focus will be on the Fed policy decision and President Trump's nomination of a new Fed Chair…

Markets will track the US Fed's policy decision in November, where the Bank is expected to maintain policy rates unchanged, and possibly signal a rate increase at its December meeting instead. The focus will remain on President Trump's nomination of the next Fed Chair on November 2nd; Powell - a member of the US Federal Reserve's Board of Governors– has lately been emerging as a leading contender for the post. The US President's nomination of Powell is expected to have a positive impact on the EMs, and especially on the TRY-based assets that have been decoupling negatively in October, in the short term. Another topic to be closely followed will be developments regarding the Trump's tax reform plan. A rejection, or major revision to this plan could lead to a global wave of selling in the markets. Meanwhile, market participants will continue to follow US inflation and leading growth indicators. Fund flows towards EMs may strengthen with weaker than expected inflation reports from the US; otherwise, they are generally expected to weaken in November. We may also see hedge-funds window dressing in November leading to an underperformance of the EMs.

The BIST may test new historical highs in November…

Locally, investors will follow S&P's review of Turkey's sovereign credit ratings, expected to be shared by the end of this working week. The TRY is expected to continue decoupling negatively in November, too, although its relative depreciation is expected to lose some momentum. A similar pricing pattern might be observed in benchmark bonds as well, where yields may ease somewhat, following the busy borrowing schedule in October. A lower than expected inflation print in October may also support this easing. Meanwhile, the BIST may test new highs with strong 3Q17 earnings announcements and positive expectations for upcoming earnings. Observing past data, one can infer that the BIST generally faces some selling in November, closing the month on a decline. This may hold true as the BSIT may see profit takings, especially from institutional investors with the end of the 3Q17 earnings season, and hedge-funds' window dressing in November. However, before these acts, we would expect the benchmark index to test new historical highs.

We maintain the distribution of our portfolio in November…

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