The BIST has seen notable negative decoupling in September…

The BIST continued to decouple positively from its peers in September as well…

Having started the month slightly above the index level of 110,000, the BIST100 has decoupled negatively from its peers in September, due mostly to pressure on banking sector stocks. After having declined to index levels of 101,000 within the month, the index closed on a monthly decline of 6.46% at 102,908, where industrial stocks have continued to outperform the benchmark index. The BIST100's relative decline was mainly attributable to the regional rise in geopolitical risk, with the referendum in Northern Iraq, the US Fed's indications of another rate increase at its December meeting, and lastly, to the increase in corporate tax on financial institutions to 22% from the previous 20% in the new tax plan. The BIST has, thus, performed relatively weaker than its peers in the MSCI.

Fed minutes indicated differing opinions among FOMC members regarding the Bank's next rate increase…

The US Fed's FOMC has decided to maintain its policy rates unchanged at 1.00% - 1.25% at its meeting on September 20th with the unanimous vote of all nine members. The central bank has also shared that the impact of recent hurricanes was unlikely to materially alter the course of the economy over the medium term, and that it remains on course to deliver another rate increase at its December meeting, while also setting the start of its balance sheet reduction process by US$10bn in October. Market participants in general were expecting the Fed to postpone its rate increase decision in December, and hence, the central bank's revelations following its FOMC meeting in September were generally perceived as more hawkish than expected, and somewhat surprising. Following these messages, expectations of the Fed delivering another rate increase in December have increased to 70%s from around 50% previously.

CBRT did not change its interest rates…

Meanwhile, the CBRT has maintained its policy rates unchanged, as expected. The weighted average funding rate though the utilization of the late liquidity window remained at around 12.00%s in September.

The Government has shared its Medium Term Programme (MTP) for 2018-2020 last Wednesday, along with a number of new tax measures aimed to increase its revenue budget in line with this programme. The MTP has also included noteworthy targets on growth and employment. The market has nevertheless reacted negatively to the announcement of a new taxation plan, especially on account of the rise in corporate tax on financial institutions, which has led to a decline in banking sector stocks. Thus, while the new tax plan would improve the government's fiscal policy in the medium term, for the short run, it might continue to exert negative pressure on banking industry stock performances.

Markets will follow Fed-speak in August, especially regarding its balance sheet reduction programme…

Markets will focus on various Fed members' speeches and the ECB's policy decision in October. Also, US President Trump's tax reform will be closely followed. Major US macroeconomic data, especially US inflation figures will continue to be closely watched as well, while the impact of hurricanes is set to diminish over the coming weeks. Geopolitical risks will also remain under scrutiny; risk appetite may decline rather hastily should North Korea continue with its missile tests. Meanwhile, any rise in tension in Northern Iraq following the referendum of September would increase regional geopolitical risk as well, which could, in turn, continue to bring about a rise in crude oil prices. Following relatively hawkish messages from the Fed, risk appetite in general is expected to decline, and EMs, especially TRY-based assets, seem set to underperform. However, should macroeconomic data from the US and other developed economies provide positive indications of global growth, the major central banks signal rather gradual policy changes, and geopolitical risk not increase, risk appetite towards EMs may continue.

The probability of the BIST facing profit takings in August is considered high…

Locally as well, geopolitical risks and developments regarding the referendum in Northern Iraq will remain the key agenda item. Trading at the BIST is expected to be volatile during October, following the sell-off in September. The index may, however, close on a monthly rise, with reactionary buying following the previous month's decline. Meanwhile, further increases in Fed rate hike expectations for December and subsequent months, and rising geopolitical risks may see the BIST continue to decouple from its peers among the EMs. However, one would expect this decoupling to be relatively limited when compared to September. And should geopolitical risk increase with the possibility of a military operation in Northern Iraq or Syria, the BIST may be expected to continue decoupling on increasing selling pressure.

We maintain the distribution of our portfolio in October…

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