The BIST tested new all-time highs in August…

The BIST continued to decouple positively from its peers in August as well, and has tested a new all-time high level of 110,530…

Having started the month slightly below the index level of 108,000, the BIST100 has continued to decouple positively from its peers, testing a new, TRY-based all-time high of 110,530 in August. This despite increasing political tension between the US and North Korea temporarily causing selling pressure, and carrying the index down to 105,000s within the month. The benchmark index closed 2.3% higher at around 110,010 by the end of August; the monthly advance was primarily led by the industrial stocks. Risk appetite towards the EMs continued on diminishing expectations for another US Fed rate increase decision in 2017, and was locally supported by strong earnings announcements and positive growth expectations.

Volatility was higher in major international stock markets in August due to rising concerns over whether President Trump's administration would implement its economic policies, exacerbated by continued turnover in his organization, and rising geopolitical tension between the US and North Korea, causing the developed markets especially to retreat.

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

The minutes of the US Federal Reserve's July 25-26 meeting indicated differing opinions among FOMC members regarding their inflation expectations, and hence the timing of the Bank's next rate increase. The FOMC members have, however, agreed that the Bank's balance sheet normalization programme should begin relatively soon. The odds of a rate increase in December have declined to below 40%s following the announcement of the Fed's latest FOMC meeting minutes. Market participants were initially expecting the Fed to increase its policy rates 3 times this year, each at a rate of 25bps; expectations have, however, declined to 2 rate increases in 2017 based on the latest developments. With subsiding expectations of another rate hike from the Fed in 2017, risk appetite increased further and fund flows towards the emerging markets, especially the TRY-based assets continued. As to the CBRT, the Bank did not have any policy meeting scheduled for August. The CBRT has maintained its tight monetary policy stance sustaining the weighted average funding rate at around 11.97%s in August.

Markets will follow Fedspeak in August, especially regarding its balance sheet reduction programme…

Markets will focus on the Fed's next policy meeting in September, especially in order to take clues on the Bank's balance sheet normalization programme. The Fed is not expected to raise its policy rate at this meeting. The initiation of its balance sheet normalization programme, however, may have a short term negative impact on the markets. Still, should the Fed indicate at the same time that its next rate increase could be in 2018, the impact of its balance sheet reduction programme could be rather limited and risk appetite and fund flows towards emerging markets could thus continue. Market participants will also follow the ECB's interest rate decision to be delivered within the month and the representations to be made thereafter; the impact of hawkish comments from the ECB indicating that it could end its monetary stimulus programme earlier than expected could be bigger than that of the Fed's. Meanwhile, investors will continue to question President Trump's economic policies. 'Speculation' on Trump quitting his post might create a short-term turbulence in the markets. Meanwhile, investors will also follow discussions regarding the US debt-ceiling. Should Congress decide not to raise the country's debt-ceiling, the risk of a closing down of the US Treasury would increase. Currently, Trump's remarks and policies seem to be increasing this risk. Contextually, geopolitical developments will also be followed, as they pose the biggest risk factors in September. Tension between the US and North Korea regarding the use of nuclear weapons will remain a key risk against the advance in world equity markets.

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

Locally, there appear to be two important risk factors capable of impacting the performance of the Turkish stock market; one of them being the referendum planned for Northern Iraq and the other being developments in Syria. The TRY is expected to continue gaining value due to the CBRT's tight monetary stance; in this respect, inflation and other macroeconomic data, and the CBRT's policy decisions will be scrutinized by market participants.

The BIST is expected to sustain its uptrend in September as well, notwithstanding possible limited profit taking within the month, as long as global risk appetite endures and fund flows towards EMs continue. Growth prospects and diminishing expectations of another rate hike from the Fed in 2017 would support this trend. The TRY may continue to strengthen in September as well. Should inflation expectations continue to drop and bond yields increase, the TRY is expected to appreciate even more strongly. However, if global risk appetite declines due to geopolitical risks and concerns over the Trump administration, the BIST may well experience strong sell-offs, similar to those seen in mid-August. Meanwhile, the BIST continues to trade at a discount to its EM peers, even though its discount is relatively lower than before.

We maintain the distribution of our portfolio in August…

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