Fitch's rating increase combined with the sustainability of lower interest rates continue to support the ISE Index...

Central Banks continued to hold their benchmark rates at low levels...

FED, BOE, ECB and BOJ continued to hold their benchmark interest rates at historic low levels. FED Chairman re-nominated by the American Senate for the second term, has reconfirmed that they will keep interest rates low for an extended period. US job rate fall below than expected, unemployment figures at 10% showed evidence that the US economy had improved, and may continue to get better during 2010 as a result of the government stimulus packet. On the other hand, some macro indicators were mixed.

However, the global downturn has not ended yet. OECD has stated the value of international M&A activity fall by 56% in 2009 compared to 2008 figures. Moreover, credit rating agencies continued to downgrade countries sovereign ratings. Moody's, S&P and Fitch all cut Greece's credit ratings. Moreover, Baltic countries' sovereign ratings remain under downward pressure. Also, S&P lowered Spain's ratings outlook to negative and downgraded Mexico's credit rating because of weak oil output and budget deficit. Dubai government has been struggling with liabilities of about USD 60 billion, the news sparked fears of a default which simultaneously weighed on global markets as investor appetite for riskier assets decreased in all over the world. Later, Dubai government has stated that it received a USD 10 billion bailout from neighboring Arabian Emirates.

Despite credit rating agencies downgraded some countries in Europe and America, Fitch upgraded Turkey's rating...

However, Fitch upgraded Turkey's long-term foreign currency sovereign borrowing grade by 2 notches to "BB+", one notch below the investment grade. Fitch had changed Turkey's outlook to positive on November 27 and delivered the upgrading earlier with more than one notch. Fitch argues that Turkish economy becomes more resilient to external shock. Turkey has proven itself through the global economic crisis whereas its banking sector has stood out with its resilient structure. Despite recent deterioration in its budget dynamics, Turkey has healthier debt dynamics than higher-rated countries. Following Fitch's rating upgrade, the ISE-Index which previously tested 46,000 technical levels has restarted to climbed, and went up 51,000 levels.

CBRT has paused interest rate cut process...

During the last meeting on the December 17th, the CBRT paused on the interest rate cut process. Accordingly, the overnight borrowing and lending rates stayed to 6.50% and 9.00%, respectively. CBRT assumes that the economy recovery will be slow. For the moment, we expect the policy rate to stabilize around the same levels until the second half of 2010.

Uncertainty continues regarding the IMF agreement...

We believe that the government is reluctant to finalize the process of an IMF deal while keeping the expectations alive on the matter until 1Q10. As we have mentioned in the previous month, the government can continue without an IMF deal unless the global climate deteriorates. We preserve our neutral stance on the matter since it is a political will after all whereas we definitely prefer an IMF deal during a prolonged global economic recovery.

The ISE which has diverged positively from its peers...

The ISE which has diverged positively from its peers. Despite other emerging downgraded by credit rating agencies, Turkey rating's increased and the ISE maintained its bullish trend during December 2010.

Turkey is expected to recover easier than its peers thanks to its resilient banking industry and CBRT's continuous lower interest policy as the main reason behind the ISE-Index strong performance. After the ISE-100 Index retested its highest level at 51,300 in mid December, the bullish trend was maintained until the new year.

As well as global macro economy data releases, annual corporate earnings expectations, decreasing likelihood of an IMF deal and sustainability of lower interest rates combined with rating increase expectations from S&P and Mood's will continue to orientate the ISE-100 index in the coming months. Thus, we expect the market to maintain its bullish trend during January 2010.

Our portfolio recommendation for January…

Taking into account continuing bullish trend on the ISE, and the end of easing cycle on the interest rates, we lowered the share of treasury bonds to 50% from 60%, and accordingly we have increased the weight of equity to 30% from 20% in our model portfolio. Our new investment portfolio's shares stand as 30% in equity, 50% in treasury bonds, and 20% in FX.