

The BIST continued to decouple positively from its peers amid continuing fund flows into the emerging markets

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The BIST has maintained its strong uptrend and continued to decouple positively from its peers in March as well, as capital flows to emerging markets have accelerated thanks to the ECB's extra stimulus measures and US Federal Reserve's dovish position, paring back its expectations on rate increases in 2016. The BIST100 index had started the month of March at an index level of 76,000, and has tested 83,500 levels. As we are approaching the last week of the month, the Turkish equity market has faced some profit taking, due to heightened terror incidents, both locally and around the world.

The CBRT has held interest rates steady at 7.50%, yet reduced the upper band of interest rate corridor by 25bps...

The CBRT kept main interest rates on hold at its March meeting, leaving the repo rate unchanged at 7.50%, and O/N borrowing rate at 7.25%, respectively, but has cut the upper band by 25 bps to 10.50% from the previous 10.75%. The minutes of the meeting underlined the recovery in global volatility conditions, and remarked that a prudent step had been taken in terms of the simplification of monetary policy. The MPC decision however, had a rather limited impact on the markets.

The Fed maintained policy rates unchanged at its March meeting, lowering its rate increase and growth expectations...

The US Federal Reserve has held its policy rates unchanged at 0.25-0.50% at its March FOMC meeting, while indicating that it plans to lift interest rates fewer times this year than it had expected in December, penciling in two increases instead of four as it continues to see risks stemming from global economic and financial developments; the central bank's latest forecast now sees the benchmark Fed funds rate rising to 0.9% by year end. Fed Chair Yellen has stressed that the Bank has acted cautiously at this meeting, and that concerns over the global economic outlook continue to pressure US financial conditions. The Fed's statements have been interpreted by the markets as being quite dovish. Capital flows to emerging markets that had started by mid-February have thus accelerated. According to the latest CBRT data, US\$1,250mn of foreign capital has entered the BIST over the past five weeks until 18th March. This is the strongest five consecutive weeks' capital flow since May 2013, also pointing to strong foreign capital flows, and indicating that the uptrend at the BIST is likely to continue.

We expect the positive trend to continue in April as well, despite possible profit taking...

Markets will focus primarily on the next Fed decision and subsequent commentaries from FOMC members in April as well. Chinese and US macroeconomic data, and indications as to whether the recent upturn in oil prices proves to be permanent will also be closely followed. In addition to these, domestically, appointment of the CBRT's new governor will be one of the main points on the agenda. Moody's credit rating review and the MPC's interest rate decision will also be closely traced. The prospect of further terror will, unfortunately, remain a risk factor.

We maintain the distribution of our portfolio unchanged for April...

We may see some profit taking in the month of April due to confusing statements from Fed FOMC members, following the strong upturn in emerging markets led by Turkey. We expect TRY assets to maintain their uptrend provided that Moody's does not deliver any negative evaluation, the new CBRT governor appointment runs smoothly, and Fed members do not amplify their hawkish statements. Should capital flows to emerging markets continue, the BIST may try and test 85,000 levels, following some profit taking.

In light of these expectations, we maintain the weight of bonds in our portfolio at 60%, FX at 10% and equities at 30%.