

## Emerging markets continued to attract fund flows in April as well...

**The BIST continued to decouple positively in April as well...**

The BIST has maintained its uptrend in April as well, thanks to the seamless appointment of the new Governor of the CBRT, and continued rate cutting. The BIST100 index had started the month of April at around 83,000, and has strengthened its uptrend during the month, thanks to the US Federal Reserve's dovish statements and expectations of the CBRT prolonging rate cuts, testing 86,900 levels. Thanks also to the decline in interest rates on bonds, the strong performance of banking sector stocks has also supported this upturn.

**The CBRT has held interest rates steady at 7.50%, yet reduced the upper band of the interest rate corridor by a further 50bps...**

The MPC of the CBRT has convened for the first time under the governorship of Mr. Murat Centinkaya in April, and kept benchmark and lower band rates on hold, while cutting the upper band of the interest rate corridor by 50 bps to 10.00%, in parallel with market expectations. The MPC has emphasized that inflation has displayed a marked decline, mainly due to unprocessed food prices, and that this decline was expected to continue in the short run. The CBRT added that the underlying core inflation trend remains limited, necessitating a tight liquidity stance.

**The FOMC members of the US Federal Reserve signaled caution on future rate hikes in recently published minutes...**

The minutes of the US Federal Reserve's March FOMC meeting read that in their discussion of the rate increase, members were abstaining from sending the wrong signals. FOMC members have generally agreed that global economic and financial developments continue to pose risks, emphasizing that a cautious approach to raising rates would be prudent. Following the announcement of the Fed FOMC minutes, fund flows towards emerging markets have continued. According to the latest CBRT data on 15th April, US\$1,954mn of foreign capital has entered the BIST over the past two months, and total fund flows into the BIST have reached US\$1,588mn in 2016, while for government securities, the figure has reached US\$ 2,206mn, especially with the past couple of weeks' inflow. This picture of strong foreign capital flows supports the view that the positive trend in TRY-based assets and at the BIST is likely to continue for the medium term.

**TRY-based assets are expected to sustain the current uptrend for the medium term; at the same time, some profit taking may prevail in May...**

Markets will focus on further Fed-speak from various members of the FOMC in May as well, while no change is expected to be introduced to current policy rates at the May meeting. Additionally, Chinese, European and US macroeconomic data, and the course of oil prices will be followed. Domestically, the markets will try to assess whether the CBRT is to continue cutting rates, and will also be awaiting S&P's credit rating review.

We may see some profit taking in emerging markets in May, and especially at the BIST, as these have been performing quite strongly over the past couple of months. However, expectations of the Fed maintaining its policy rates at current levels, at least for the short run, and the expectation of further rate cuts from the CBRT may limit the extent of the profit taking, supporting the uptrend. The main risks would be strong macroeconomic data announcements from the US, which would lead the Fed to revert to a more hawkish tone, and weak Chinese macroeconomic data. Upside risks would be a prolonging of the upturn in commodity prices, with diminishing concerns over global growth, both of which would support the uptrend in equity markets.

**We maintain the distribution of our portfolio in May...**

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