

## We stick to our upbeat market call

[Our Key Ideas portfolio](#) is up by 10% and outperformed the BIST100 return Index by 4% since its inception on July 13th. We maintain our bullish market call on the back of our expectation of continued EM fund flows into TRY assets, very strong 2Q21 earnings performance warranting upward price revisions and positive valuation impact of weaker TRY on heavy weight BIST stocks. We do not make any changes to our portfolio in this update.

EM funds have been reducing their China exposure after June due to regulatory pressures, shaky bilateral relations with the US and lately due to financial problems of real estate developer Evergrande, which will be causing a systematic risk if not handled properly in our view. The share of China in MSCI EM Index is coming down by 0.5%-1% every month, whereas India and Taiwan are collecting the bulk of outflows. Problems in peer countries such as South Africa, Brazil, Russia are not less than those of Turkey. SA is struggling with corruption, high crime rate and high debt/GDP, Brazil is also dealing with corruption charges on the government, crime spree as well as economic crisis, Russia has issues with rule of law, corruption and US sanctions.

2Q21 was an exceptional quarter from an earnings evolution point of view. Aggregate net profit of the companies that have analyst expectations has tripled y-y in 2Q21, while the total EBITDA was up 50% in the same period. The net profits were 10% better than forecasts on average, while those of our top-picks were 16% above. While the current valuations are already very appealing, there is even room for further upside potential once the analyst community is done with their revisions.

The investor community is understandably uneasy about the prospects of the TRY given the level of FX reserves and latest policy switch of the Governor from paying interest over the headline inflation to taking the core inflation as the base for policy decision. While those issues may increase the volatility of the exchange rate, its impact on the stock market may not necessarily be negative. The companies constituting more than half of BIST100 Index are either benefitting from a weaker TRY or they are immune to exchange rate volatility. Automotive, consumer durables, aviation sector, petrochemicals, iron and steel and chemicals with heavy weight representatives in the index benefit from weaker TRY. Discount food retailers and banks are somewhat immune. Garanti with a long FX position corresponding to sector topping 20% of its accounting equity can also be count among the beneficiaries along with some other large cap private bank peers. So we recommend focusing on picking the right stock rather than refraining to invest based on currency worries.

					13-07-21	19-09-21	Return	Weighted Return	Weighted Alpha						
XU100 Return Index					2,368	2,501	5.6%	9.7%	4.1%						
Share	BIST100	Portfolio			BIST100	Inclusion		Inclusion		Weighted		Weighted			
	Weighting	Weighting	Delta	Beta	Correl.	Sharpe	Date	Price	Last Close	Return	Return	Alpha	Target	Upside	
GARAN	5.34%	10%	4.7%	1.5	79%	18.1%	13-07-21	8.45	9.46	11.95%	1.20%	6.37%	0.64%	12.5	32%
YKBANK	1.75%	10%	8.2%	1.4	84%	12.3%	13-07-21	2.27	2.47	8.81%	0.88%	3.23%	0.32%	3.0	20%
AKSEN	0.54%	9%	8.4%	1.0	60%	33.1%	13-07-21	11.47	14.57	27.03%	2.40%	21.45%	1.91%	19.0	30%
ARCLK	1.52%	9%	7.4%	0.6	47%	-2.1%	13-07-21	32.34	31.96	-1.18%	-0.10%	-6.76%	-0.60%	48.8	53%
BIMAS	7.16%	9%	1.7%	0.3	41%	20.1%	13-07-21	61.20	68.80	12.42%	1.10%	6.84%	0.61%	105.9	54%
INDES	0.24%	9%	8.7%	1.0	40%	7.7%	13-07-21	5.80	6.09	5.00%	0.44%	-0.58%	-0.05%	12.3	101%
KCHOL	3.70%	9%	5.2%	1.4	84%	21.7%	13-07-21	19.69	22.92	16.40%	1.46%	10.82%	0.96%	27.6	21%
KRDMD	1.32%	9%	7.6%	1.7	77%	-5.3%	13-07-21	7.09	6.80	-4.09%	-0.36%	-9.67%	-0.86%	11.1	63%
MAVI	0.00%	9%	8.9%	1.2	62%	21.4%	13-07-21	54.13	64.00	18.23%	1.62%	12.65%	1.12%	112.5	76%
SISE	3.53%	9%	5.4%	0.7	64%	18.4%	13-07-21	7.55	8.33	10.33%	0.92%	4.75%	0.42%	12.0	43%
TCELL	5.24%	9%	3.6%	0.8	71%	2.8%	13-07-21	15.31	15.50	1.22%	0.11%	-4.36%	-0.39%	27.0	74%
<b>Portfolio Return</b>										<b>9.66%</b>		<b>4.08%</b>			

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