

### **High volatility still in force for the markets...**

***FED decided to extend the average maturity of its holdings of securities, instead of another QE...***

The ongoing Greek debt crisis has continued to stay on the top of the agenda for the last few months and the risk on contagion to other EU nations still weighs on the market sentiment, putting pressure on all asset classes. On the other hand, the global economy has been losing momentum with the US cooling the most, for the last couple of months. After its decision in the last FOMC, FED underlined the significant downside risks to the economic outlook, including strains in global financial markets. To support the economic recovery FED decided to extend the average maturity of its holdings of securities, instead of another QE, to put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.

***S&P upgraded Turkey in terms of local currency...***

The S&P increased Turkey's local currency rating to investment grade, from BB+ to BBB- with a positive outlook. However, the foreign currency rating was kept at BB, two notches below investment grade. The S&P announced that if there is an improvement in the current account deficit, the foreign currency rating also may be increased. Recall that the majority of the funds require an investment grade rating in foreign currency by two ratings agencies to invest in a country

***CBRT left the benchmark unchanged at 5.75%...***

The Monetary Policy Committee maintained the policy rate at 5.75% in line with the market consensus and our in-house forecast. The Committee also kept other interest rates unchanged. In addition, there was no change in reserve requirement. The Committee has also reiterated that all policy instruments may be eased should global economic problems further intensify and the slowdown in domestic economic activity becomes more pronounced. After the S&P's upgrade, the CBRT will likely cut the policy rate by another 50 bps by year-end, as the upgrade is likely to support the Lira.

***ISE outperformed its peers...***

High volatility and sell-off mood continued in global markets in September due to the ongoing concerns about EU's debt crisis combined with recent macro data releases indicating a global slowdown. But ISE faced with reactionary buying stemming from due to significant underperformance of Turkish equities (perhaps too harsh for Turkey's fiscal and financial position), easing CAD and inflationary pressures on the back of an expected slowdown and S&P's upgrade of local currency rating to investment grade.

***Our portfolio recommendations for October 2011***

Following the strong sell-off in August, reactionary buybacks and stabilization efforts occurring during September should continue in ISE, in October. However we believe that volatility will continue in the markets due to the fears on the Eurozone debt crisis and slowing global growth. On the domestic front, ongoing tension in the FX and bond market keep the TL under pressure which also affects the mood negatively on stocks. We expect high volatility to remain in the market regarding the abovementioned risks and advise our investors to keep their cautious stance. However, we believe that there will be some opportunities despite the low risk appetite, since the worldwide stock markets has been oversold and we think that investors should utilize these opportunities by being selective, particularly in stock market.

***We maintain our portfolio coverage of 40% in government securities, 20% in FX and 40% in equities.***