



Investment Insight

Friday, 25 May 2018

Turkey goosed? While current Irish interest rates are, for savers, lamentably low, we must be careful what we wish for. Some readers will have less than fond memories of periods during the 1970s, 80s and early 90s when variable mortgage interest rates hit stress-inducing double-digit levels.

This is precisely the fate befalling Turkish borrowers following this week's 3% rate hike by the Turkish central bank whose liquidity window rate now stands at 16.5%. The central bank capitulated after three weeks of market turmoil while President Erdogan, who has referred to interest rates as "the mother of all evil" sought to resist a hike. The hope was that the increase would stem the devaluation of the Turkish Lira which has fallen by more than 20% so far this year. It did...for a few hours. In **The Inside Track** we take a closer look.

Diversification 1.01: The Harvard University Endowment is the largest of its kind in the world with a pot of over \$37 billion invested across over 10,000 funds. Often considered as the "smartest university in the room", investors have kept a close eye on the asset allocation decisions made by the endowment's managers over the years.

So it came as a surprise last week when it was reported that of the endowment's \$817 million in long equity positions, the vast majority was in just three stocks. In the **Pic of the Week** we reveal all.

Quoted...

"Liverpool weren't the best team in Europe" – Jose Mourinho

The Inside Track

Turkey is facing a stiff challenge to recover its composure in the run up to presidential elections.

For several years Turkey's current account deficit has been one of the world's biggest; this year the country will likely require over \$50 billion to plug the gap. Market observers are keenly aware of the country's challenges and what some would seem as profligate spending by the state may be coming home to roost.

After weeks of resistance, the Turkish central bank increased liquidity window interest rates by 3% on Wednesday in an effort to stem the tide of devaluation facing the Turkish Lira and the rampant inflation that has beset the economy. The intervention, thus far, has not had the desired effect. The Lira remains under pressure and exacerbates the cost of raising and funding Turkey's government debt.

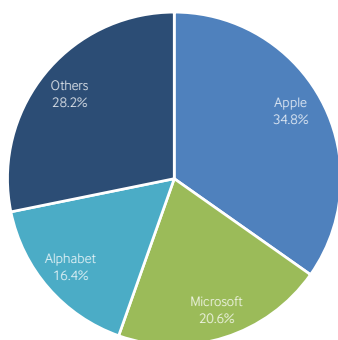
Of course, a strong US dollar doesn't help; Brent crude is up over 20% this month in Lira terms and for a major energy importer this spells more trouble. All of this means real pressure on the incumbent president Erdogan ahead of forthcoming elections. Apart from soaring petrol prices at the pumps, double-digit inflation is eroding household wealth at an alarming pace.

The roller-coaster ride has extended to investors; the Borsa Istanbul 100 Index was up over 47% in local currency terms in 2017. At the time of writing, it is down 10% in local currency terms but for US dollar investors it's down over 35%. Some commentators have declared that Turkey's goose is cooked; unlikely perhaps, but the short to medium term vista isn't compelling.

Pic of the Week

The Harvard University Endowment's concentrated positioning in technology stocks, while successful in recent times, represents a surprisingly aggressive approach to diversification (or lack of). Perhaps the strategy is symptomatic of that pursued by many investors and, if so, goes some way towards explaining the almost unbroken run in the performance of the tech sector. Maybe these companies will grow at elevated levels for long into the future, thereby justifying their high prices, but the market will be unforgiving if they slip up.

Diversification, Harvard style



Week ahead: Key events

- 29/05 US Consumer Confidence & Manufacturing Outlook
- 30/05 Japan Retail Sales & US Mortgage Applications
- 31/05 UK Consumer Confidence & Japan Industrial Production
- 31/05 EU Inflation & Unemployment
- 31/05 US Initial Jobless Claims & Pending Home Sales
- 01/06 Eurozone Manufacturing PMI
- 01/06 US Employment & Manufacturing PMI

Important Disclosure. Aria Capital Limited is regulated by the Central Bank of Ireland. Financial data provided by Bloomberg. All values are indicative only. This Investment Insight has been prepared for information purposes only. It does not constitute investment advice or an offer to buy or sell securities. No investment decisions should be made without seeking appropriate professional advice. This document may not be reproduced in whole or in part without Aria Capital's permission. © Aria Capital Limited 2018. All rights reserved.