



# The News from Turkey in Context

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News broke on the afternoon of Friday, July 15, that a military coup was underway in Turkey. When all was said and done, approximately 160 people were killed and 1,000 were wounded during what turned out to be a failed coup attempt.

## Background

Dissatisfied members of the military, who felt as though politicians were out of touch with the people, staged the coup. They were looking to wrestle power away from the President of Turkey, Recep Tayyip Erdogan. On Friday evening, military units created road blocks in both Istanbul and Ankara, while helicopters and F-16 fighter planes (hijacked) conducted low altitude flights over those cities. Soldiers blocked two of the major bridges with tankers, and some tankers approached the International Airport in Turkey. They bombed the parliament in Ankara, as well as the walls outside of the presidential palace. Police units loyal to the government took up arms to fight off the military. Shortly after, President Erdogan, who happened to be on vacation, took to the media and called upon citizens to march and fight against the military who started the coup. Although Erdogan is highly controversial, crowds took to the streets to fight for him. The coup did not last long, as all four political parties condemned it, military and police units loyal to the government fought it, and eventually members of the military who staged the coup surrendered. Nearly 6,000 of members of the military and judiciary have been taken into custody for their alleged role in the failed coup plot.

The ringleader is said to be an ex-air force chief named Akin Ozturk, who will now be charged with treason. In addition to the 6,000 people already arrested, it appears that 3,000 more are still being sought. President Erdogan went so far as to say the coup “was a gift from God to cleanse the army.”

President Erdogan also believes that a self-exiled cleric named Fethullah Gulen, who happens to live in Pennsylvania, was behind the coup. President Erdogan is pushing the U.S. to extradite him back to Turkey. However, the U.S. claims Turkey has not put in a formal extradition request, and Gulen denies being involved. Turkey claims they have proof he was and plans on bringing that information to the U.S. as soon as possible.

## What does this mean for Turkey and markets in general?

There appears to be little immediate developed market impact from the coup. Many economists believe there will not be a major impact like the rush to safe assets that we saw after Brexit, but that the world will be watching Turkey carefully.

The Turkish government has said it is in full control of both the country and the economy. The central bank of Turkey has said that it will provide unlimited liquidity to banks. The Turkish lira hit a three-week low against the dollar in late Friday trading, failing 5%, its biggest fall since 2008, but has since risen about 2%. Currency weakness does risk pushing up inflation and risks adding further pressure to the current account deficit. Turkey relies heavily on tourism and foreign investment as well, so how the government reacts will be very important. There could potentially be a higher risk premium to Turkish assets, which could lead to some level of risk aversion, but it appears as though it will be minimal.

The Emerging Markets Equity Team believes that this will have little effect on Emerging Markets in general. As we usually say, we would rather emphasize our long-term approach than focus on daily events and performance. The team has no current plans to make changes to our minimal holdings in Turkey across our three portfolios, as nothing has changed fundamentally to our investment thesis.

## Our positioning as of 6/30/16

In terms of our exposure to Turkey, we have a very small weighting in our portfolios. Turkey is a small component of both the MSCI EM Net Index and MSCI EM Small Cap Net Indexes.

- Emerging Markets Equity: We are slightly overweight by 0.8%. In the portfolio, we own 2.1% in Turkey vs. 1.3% for benchmark (MSCI EM Net Index).
- Emerging Markets Small Cap Equity: We are underweight by -1.3%. In the portfolio we have no exposure to Turkey vs. 1.3% for benchmark (MSCI EM Small Cap Net Index).
- Emerging Markets Value Equity: We are overweight by 1.7%. In the portfolio we own 3.0% in Turkey vs 1.3% for the benchmark (MSCI EM Net Index).

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