

Daily View

Good morning. Global markets are starting the week with optimism stemming from former President Trump's announcement of a tariff agreement between the U.S. and the EU, which sets duties at 15%. U.S. and European futures are trading slightly higher, supported by the fact that the deal averts higher tariffs that were scheduled to take effect on August 1, thereby reinforcing global risk appetite. In contrast, profit-taking is prominent in Asia. The Nikkei Index is down 0.7%, while the Shanghai Stock Exchange is trading flat. This week's primary focus will be on the interest rate decisions from the U.S. Federal Reserve on Wednesday and the Bank of Japan on Thursday. Both central banks are expected to keep rates unchanged; however, their forward guidance will be critical in shaping expectations for the remainder of the year. Domestically, market participants monitored ratings updates from two major credit rating agencies over the weekend. Moody's delivered a surprise upgrade to Turkey's credit rating, raising it from 'B1' to 'Ba3'. Fitch, on the other hand, affirmed its rating at 'BB' with a 'Stable' outlook. Although Ba3 remains in the non-investment grade category, it represents the highest tier within the speculative segment. However, the revision of the outlook from 'Positive' to 'Stable' limits the potential for another near-term upgrade. Last week, a loss of momentum accompanied capital outflows from Borsa Istanbul, with the BIST 100 Index closing the week at 10,642 points. As the new week begins, we will be watching the possibility of the index testing the 10,700 resistance level and above, partly supported by Moody's upgrade. In the short term, the 10,800–11,000 range is seen as resistance, while the 10,500–10,300 band remains the key support area. The main trend support continues to stand in the 9,800–10,000 range. From a long-term valuation perspective, the 13,900–14,000 point range remains the target for the index. This week, domestic markets will also be watching second-quarter earnings reports. Weak expectations regarding corporate profitability are one of the main reasons behind the recent loss in momentum. Today's data calendar is quiet. Later in the week, the key data points will include monetary policy decisions from the U.S. and Japanese central banks, Germany's preliminary CPI, U.S. PCE inflation on Friday, and Eurozone CPI. Turkey's 5-year CDS premium starts the week at 279 basis points.

Macro and Politics

*** The CBT will release the July Sectoral Inflation Expectations survey @ 10:00 local time.** According to the results of the June Sectoral Inflation Expectations Survey, 12-month ahead inflation expectations declined across all surveyed groups compared to the previous month: falling by 0.5pp to 24.6% for market participants, by 1.2pp to 39.8% for the real sector and by 6.9pp to 53% for households. It should be noted, however, that the impact of the Israel–Iran conflict and its potential implications for global energy costs were not fully reflected in the June results. Therefore, the extent to which this marked improvement in inflation expectations will carry into July remains a key point of focus.

*** The credit rating agencies Moody's and Fitch released their credit rating reviews on Turkey.** Moody's upgraded Turkey's sovereign credit rating to "Ba3" from "B1" while revising the outlook to "stable" from "positive." Fitch, on the other hand, left both the rating and outlook unchanged, affirming the country's Long-Term Foreign-Currency Issuer Default Rating (IDR) at "BB-" with a "stable" outlook. The market consensus had anticipated no change from either agency. In line with this, we did not expect an adjustment from Fitch; however, given that Moody's skipped its scheduled review in January, we had assessed that the agency might revise the outlook to "stable" from "positive" in light of developments over the past six months without altering the rating itself. Hence, Moody's upgrade came as a surprise relative to both our institutional expectations and broader market forecasts.

Moody's stated "The upgrade reflects the strengthening track record of effective policymaking, more specifically in the central bank's adherence to monetary policy that durably eases inflationary pressures, reduces economic imbalances, and gradually restores local depositor and foreign investor confidence in the Turkish lira". The agency anticipates inflation to decelerate to approximately 30% by the end of the current year and further decline to around 20% by the conclusion of 2026. Concurrently, the agency projects economic growth at 2.2% for this year and an acceleration to 3.2% in 2026.

Fitch, on the other hand, underlined that Turkey's ratings reflect a record of high inflation and political interference in monetary policy, low external liquidity relative to its high financing requirements, and weaker governance compared with peers. Fitch projects inflation to decline to 28% by the end of this year and further to 21% by the close of 2026. The agency expects growth to decelerate to 2.9% in 2025 before rebounding to 3.5% in 2026. Additionally, Fitch assesses the likelihood of Turkey facing U.S. tariffs as low.

Looking ahead, the next scheduled review for Turkey's sovereign credit rating will be conducted by S&P on October 17.

***The Real Sector Confidence Index (RSCI) declined from 100.3 in July to 100.2, retreating to its lowest level since the beginning of the year, while the seasonally adjusted index increased from 98.4 to 98.9.** It is worth recalling that readings below the threshold of 100 in the RSCI reflect a waning sentiment among real sector representatives regarding economic activities. Meanwhile, the Capacity Utilization Rate (CUR) slipped from 74.6% to 74.2% in July, while the seasonally adjusted CUR dropped from 74.4% to 74.1%. We anticipate that the growth, which commenced positively in 2025 supported by robust domestic demand, will shift towards a weaker footing by the second quarter. Household consumption - driven by sustained momentum in credit growth trends and the pre-March 19 interest rate cuts - delivered the strongest annual growth contribution of 1.6% in the first quarter; however, we expect its supportive effect to dwindle, albeit modestly, in the second quarter. Meanwhile, we project industrial activity to sustain its weak outlook. Although the downside risks to growth outlook have increased following tighter financial conditions domestically post-March 19, high-frequency data have yet to indicate a drastic cooling in domestic demand dynamics. On the other hand, public expenditure continues to provide a supportive backdrop for the growth outlook. Accordingly, we maintain our growth forecast at 3.1% currently.

Sector and Company News

- **ARCLK (Neutral)** reported a net loss of TL2.3bn in the second quarter of 2025, falling short of expectations (Expectation: TL1.5bn net loss). The company's second-quarter revenue declined by 12% year-on-year, falling to TL121.3bn. EBITDA increased by 12% quarter-on-quarter. This weakening in profitability indicates rising cost pressures and a decline in operational efficiency, while a 21% drop in net monetary-position gains to TL8.0bn added further pressure on the financial side. On the other hand, the company's net debt rose by 19% quarter-on-quarter to TL145.1bn, while equity decreased by 9% to TL68.9bn. This outlook reflects that the deterioration in operational profitability is also impacting the balance sheet and that the company's financial flexibility has diminished. Following a TL1.6bn loss reported in the first quarter, the deeper loss in the second quarter signals the need for caution for the second half of the year; however, the company stated that it maintains its previously shared annual expectations regarding sales, profitability, and investment expenditures for 2025 and aims for a recovery in operational performance in the second half of the year.
- **LKMNH** announced that its subsidiary HYS Turizm İnşaat Ticaret A.Ş. will participate as a partner in a real estate project planned to be developed on a land plot located in Ankara.

Share Transactions

Acquirer	Seller	Company	Type (Buyback / From Market)	# of lots	Transaction Price (TL)	Share in Capital after transaction
LKMNH		LKMNH	Buyback	77.000	16.31	3.59%
OFSYM		OFSYM	Buyback	10.435	56.30	0.37%
AHGAZ		AHGAZ	Buyback	224.995	27.73	1.37%
ENERY		ENERY	Buyback	200.000	7.87	2.40%

Important Disclosures

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