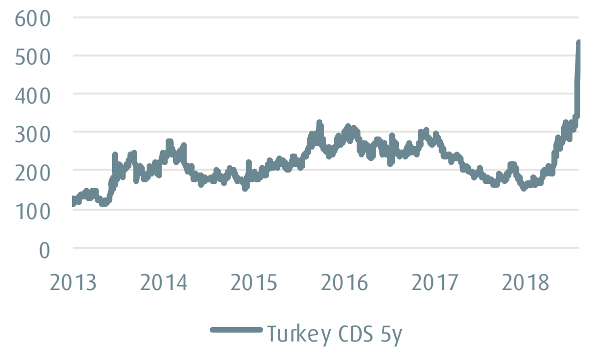
ERDOGAN VS. TRUMP

Turkish Bonds denominated in hard currencies suffered in the last days. Credit Default Swaps for 5 years jumped from 300bp to more than 500bp. The Credit Default Swap is the rate that people are willing to pay to ensure against a possible default. This rate implies a default probability of the Turkish government of more than 30 percent within the next five years. At the beginning of the year Credit Default Swaps were at a mild 150bp. What has lead to investor's mistrust?

Turkey CDS 5y



Source: Bloomberg, Clarus Capital

We already mentioned in June that Turkey has a toxic mix of a worsening political environment after the elections, high dependency on foreign financing and insufficient monetary policy measures. The dispute between Trump and Erdogan only worked as a catalysator for the current situation. Turkey is on the edge to bankruptcy should there no measures be taken. As the 7th biggest emerging markets economy, the consequences can not be neglected. European Banks were most hit the last days (especially French and Spanish ones). But also contagion to the other Emerging Markets might occur. To restore investors' confidence it would need an independent central bank as well as significant interest rate increases to reattract foreign money into the Turkish Lira. The stabilisation could also be coupled with a request for assistance to the IMF or some other lender of last resort. However, the outcome for Turkish assets seems to be binary.

Transaction spreads in Turkish bonds have increased to 2-3 percent, bond prices have decreased between 10 and 40 percent depending on the counterparty risk as well as maturity and rank. The Istanbul stock market has lost 55 percent since the beginning of the year (only -15 percent in Turkish Lira). Investors should wait for the necessary measures to be taken by the Turkish government, but it is too early to invest into Turkish assets. Developed markets have not yet fully reacted to the situation with equity markets decreasing by 2 percent.

The contagion risk to developed markets is small, we therefore are still neutral on equities. However, should the situation further escalate, the geopolitical risk could be significant as Turkey is one of the most important NATO members. We could see a further disintegration and one step closer to a multipolar world.

TACTICAL ASSET ALLOCATION

Liquidity	Overweight
Bonds	Underweight
Equities	Neutral
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Neutral
Momentum	Attractive
Seasonality	Negative
Macro	Neutral

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

DISCLAIMER

This publication is provided for information purposes only and for the use by the recipient. This document was produced by CLARUS CAPITAL GROUP AG with the greatest of care and to the best of its knowledge and belief. However, CLARUS CAPITAL GROUP AG does not warrant any guarantee with regards to its correctness and completeness and does not accept any liability for losses that might occur using this information. This document does not constitute an offer or a recommendation for the purchase or sale of financial instruments or services and does not discharge the recipient from his own judgment. Particularly, it is recommended that the recipient, if need be by consulting professional guidance, assess the information in consideration of his personal situation with regards to legal, regulatory and tax consequences that might be invoked. Although information and data contained in this document originate form sources that are deemed to be reliable, no guarantee is offered regarding the accuracy or completeness.

A past performance of an investment does not constitute any guarantee of its performance in the future. Performance forecasts do not serve as a reliable indicator of future results. This document is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. It may not be reproduced either in part or in full without the written permission of CLARUS CAPITAL GROUP AG.

IMPRESSUM

PUBLISHED BY CLARUS CAPITAL GROUP AG, GUTENBERGSTRASSE 10, CH-8002 ZURICH, RESEARCH@CLARUSCAPITAL.CH, WWW.CLARUSCAPITAL.CH

EDITORS ROGER GANZ, HEAD ASSET MANAGEMENT, DEJAN RISTIC, ASSET MANAGEMENT