

AEGON INSIGHTS

Emerging markets debt focus: Turkey

As Turkey heads into a runoff election on May 28, investors have given up their hopes that Recept Tayyip Erdogan will lose power. Prior to the first round of elections held on May 14, investors were somewhat optimistic that Mr. Erdogan could be ousted with Turkey's 5-year credit default swap (CDS) declining below \$500 (exhibit 1). However, the election results were surprisingly strong for Mr. Erdogan, who won 49.52% of the votes while the main opposition candidate, Kemal Kilicdaroglu, obtained 44.88%. Moreover, Sinan Ogan, the third candidate that obtained 5.17% of the votes, recently endorsed Mr. Erdogan and practically sealed the result of the election.

While investor optimism on an Erdogan loss has largely evaporated, Turkish assets are likely to continue underperforming as market volatility will remain high if Mr. Erdogan wins. The central bank has spent most of its liquid foreign exchange reserves defending the Turkish lira in recent weeks and a large currency adjustment is likely.

Exhibit 1: Turkey's 5-year CDS, November 23, 2022 – May 23, 2023



Source: Bloomberg. As of May 23, 2023.



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Investor optimism on an Erdogan loss has largely evaporated and as a result, we believe Turkish assets are likely to continue underperforming.

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