Türkiye fixed income

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بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Türkiye bonds: Still a delight for opportunity

- **Investor confidence in Türkiye is stabilizing following political turmoil, supported by timely government interventions.**
- **Türkiye sovereign debt valuations have steadied, though they remain elevated, enhancing their appeal compared to other emerging markets.**
- **Foreign participation has slowed but not disappeared, while positive rate momentum remains intact.**
- **Sovereign and corporate issuances have started to return as market stability improves.**
- **Corporate and financial fundamentals remain resilient, with bond valuations reflecting an excessive risk premium.**

Türkiye USD bonds have delivered modest positive returns since the start of the year but have not been immune to global bond market sell-off. Despite the positive returns YTD, these bonds have lagged behind the broader EM bond index. This underperformance stems from both domestic and external factors.

Prior to the rise in global bond volatility amidst trade tensions, Türkiye was already grappling with a confidence crisis in its assets, fuelled by domestic political uncertainty. The imprisonment of opposition leader, Istanbul's Mayor, Ekrem İmamoğlu, on corruption charges in March raised concerns about the government's commitment to macroeconomic stabilization policies—in place since 2023. The political turmoil triggered a broad sell-off across Türkiye assets, including USD sovereign bonds. This sell-off was further exacerbated by the April tariff shock, which affected all EM bonds, particularly high-yield EM names like Türkiye.

Macroeconomic risks have certainly risen as investor confidence waned due to the recent political instability. However, both the Treasury and the central bank have validated efforts to contain the crisis. The Central Bank of Türkiye (CBRT) suspended its easing policy and pivoted to a tighter monetary stance to curb lira depreciation, including prompt hike in its overnight lending rate and raising the one-week repo rate from 42.5% to 46% in April. Additionally, the central bank conducted FX-selling interventions to support the lira. These stabilization measures significantly impacted net international reserves, which have more than halved since early March. However, as political concerns eased and consumer confidence improved, reserves have started to recover, with the CBRT transitioning into a net FX buyer. Overall, there are signs of stability slowly returning to the market, though growth risks remain.

Sovereign bond valuations

Türkiye's sovereign credit spreads have stabilized following the March spike driven by political turmoil. However, they continue to trade above levels seen earlier in the year before the disruptions. The current 1-year CDS spread, which reflects near-term sovereign credit risk, is trading higher than similarly rated peers such as South Africa and even higher than lower-rated peer Bahrain (Exhibit 1). Meanwhile, the 5-year CDS spread, a gauge of long-term sovereign credit risk, remains significantly wider compared to similarly rated counterparts (Exhibit 2). We see potential for further spread compression with political tensions de-escalating further.

In the bond market, like CDS spreads, yields have stabilized after peaking at their highest level since November 2023 during the height of political uncertainty, signaling improving market sentiment. Despite recent consolidation, Türkiye sovereign USD yields remain 25bp higher on average compared to early-year levels. This year-to-date increase exceeds the rise seen in EM BB rated bonds and outpaces similar upward yield correction in EM B-rated sovereigns (Exhibit 4). At current yield levels, Türkiye bonds are trading at attractive levels, having priced in the additional political risk premium (Exhibit 3).

Rating momentum still favourable

Despite ongoing political turbulence, Türkiye's rating momentum remains positive. Since 2023, all three major rating agencies—Fitch Ratings, Moody's Ratings, and S&P Ratings—have issued notable upgrades. Following the upgrades in 2024, Türkiye regained its BB- rating. We anticipate that this positive

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Awarded Best Private Bank UAE & Middle East | Best for HNW Clients UAE & Middle East | Best for Investment Research UAE & Middle East – Euromoney 2025 trend will persist, provided the government maintains its macroeconomic stabilization program and avoids further political escalation. S&P ratings agency has affirmed the sovereign rating at BB- with a stable outlook in April, expecting that the government will continue to pursue macro-economic stabilization policies, as evident in the interest rate hike in April, and rebalance the economy over the next two years. Fitch Ratings, however cautioned that heightened political uncertainty could hinder the rating trajectory, especially for Türkiye financial institutions, given their exposure to FX volatility and external debt.

Currently, Moody's Ratings holds a positive outlook on Türkiye's sovereign ratings, signalling the possibility of another upgrade. This potential advancement depends on continued adherence to macro stabilisation policies and the absence of further political disruptions.

Foreign Investor Positioning and Bond Issuance Trends

Amid ongoing domestic and external uncertainties, foreign ownership of Türkiye's local government bonds has fallen to 8.6% of total outstanding debt as of March 2025, reflecting a more cautious approach from international investors. This marks a decline from 10% in 2024, which was at the highest level in nearly four years. Despite recent political turmoil, overseas investors have not entirely withdrawn, indicating that confidence in the government's efforts has not completely eroded.

On the supply side, Türkiye's sovereign Eurobond issuances had slowed due to both political instability and broader macroeconomic challenges. With the ease in political risk premium, the government successfully re-entered the international bond market, raising USD2bn in its second bond sale this year—bringing year-to-date issuance to USD4.5bn. Strong investor demand for Türkiye's bonds, driven by their attractive premium over US Treasuries and EM counterparts, was evident in the first sale since February. Looking ahead, the government plans to secure USD11bn from international bond markets in 2025, facing refinancing needs of USD6bn in maturing debt this year. Over the next five years, refinancing pressures remain significant, amounting to 43% of total outstanding external debt (Exhibit 5). As domestic conditions stabilize, we anticipate a further pickup in Türkiye's sovereign bond issuance.

Türkiye corporate bond issuance**,** including financial sector bonds, has also slowed in 2025 (Exhibit 8). Corporates have raised USD4bn YTD, significantly below the issuance levels of the past two years. As in previous years, financials dominated issuance activity. Non-financial corporates raised a total of USD1.83bn**,** including USD1bn from Turkcell**,** while Türkiye banks issued USD2.25bn so far this year.

Despite robust issuance in 2023 and 2024**,** near-term refinancing risks remain low (Exhibit 6)**.** Türkiye non-financial corporates face USD1.5bn in maturities by end-2025**,** while Türkiye banks have USD5bn in external debt maturing by end-2025. The reopening of Türkiye's debt capital markets following the recent sovereign issuance has opened the door for more issuances. While a corporate entity, Cimko, restarted the corporate issuance in May, the broader market had been eagerly anticipating the sovereign issuance. We expect an increase in corporate bond supply to follow with growing investor confidence. With the rise in domestic borrowing costs following the recent policy rate hike, corporations are likely to turn to FX-denominated borrowing as a more viable financing option.

Attractive corporate and bank valuations versus fundamentals

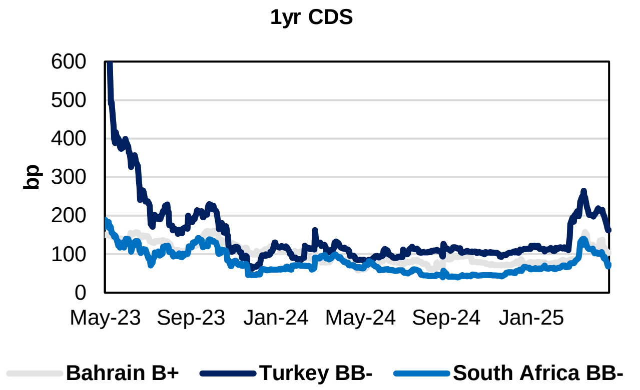
The recent rise in bond yields has boosted the appeal of Türkiye's corporate bonds (Exhibit 7). These bonds offer higher yields than similarly rated South African bonds and even surpass lower-rated peers like Bahrain. While the risk premium has increased, Türkiye non-financial corporates and banks have demonstrated resilience. Net leverage among Türkiye corporates remains lower across all sectors compared to EM averages (Exhibit 9 and 10). Cash positioning is strong, further reinforcing financial stability. Türkiye banks are well-capitalized, with adequate capital ratios, improved asset quality, and solid profitability (Exhibit 11).

- Capital ratios saw an improvement in 2024, but experienced a slight decline in Q1'25, primarily due to dividend payments.
- Non-performing loans (NPLs) rose in Q1'25 yet remain stable and below 2023 levels.
- Bank profitability has improved with improvement in net interest margins.

- Risks of a prolonged monetary tightening cycle could pressure banking sector profitability in 2025, but fundamentally, Türkiye banks continue to hold up well.

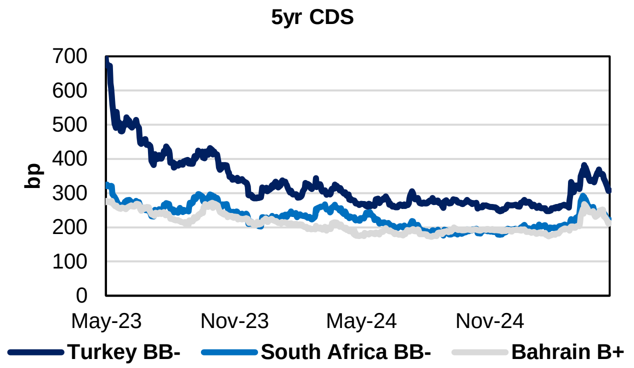
Current valuations remain attractive, especially with bonds, in B-rated and CCC-rated segments, are attractively priced backed by strong fundamentals (Exhibit 12). Additionally, Türkiye financials' AT1s and Tier 2 bonds provide compelling yields compared to MENA peers, supported by strong capital ratios and high asset quality (Exhibit 13 and 14). Despite the political turbulence, AT1s saw only a limited sell-off, in contrast to Türkiye bank shares. This suggests that credit investors continue to view Türkiye banks as fundamentally strong, with a low risk of breaching capital thresholds (Exhibit 15 and 16)

Exhibit 1: Türkiye 1yr CDS widened due to political turmoil



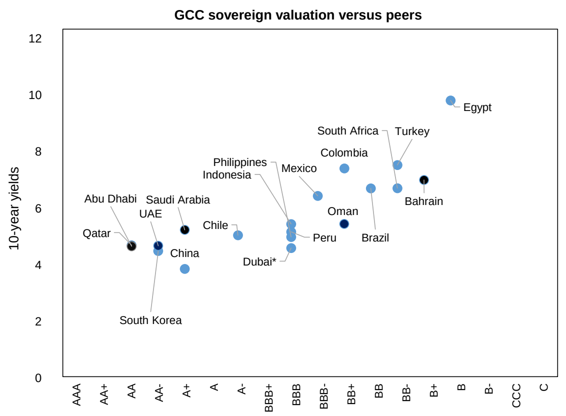
Source: Bloomberg and ADCB Asset Management

Exhibit 2: Türkiye 5yr CDS at wider levels compared to peers



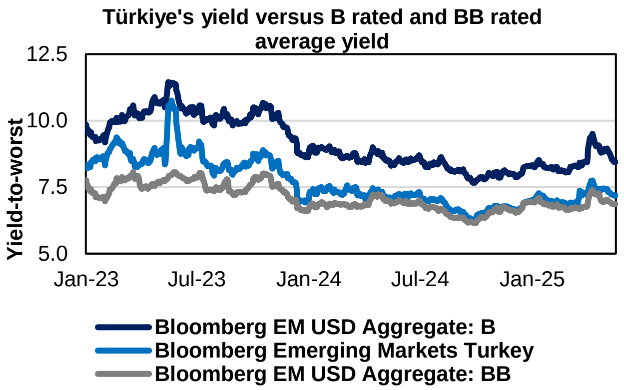
Source: Bloomberg, and ADCB Asset Management

Exhibit 3: 10yr Türkiye USD yields attractive versus peers.



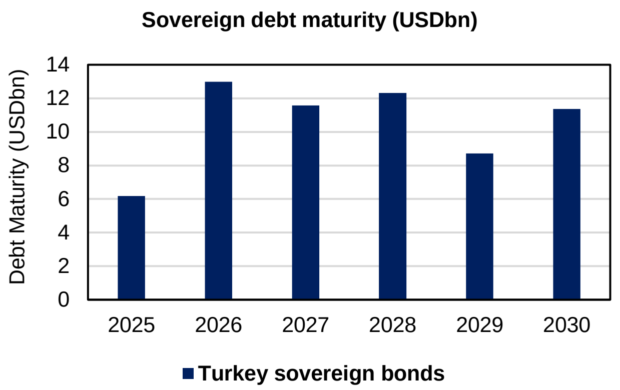
Source: Bloomberg and ADCB Asset Management

Exhibit 4: Türkiye bond yield higher compared to BB rated peers.



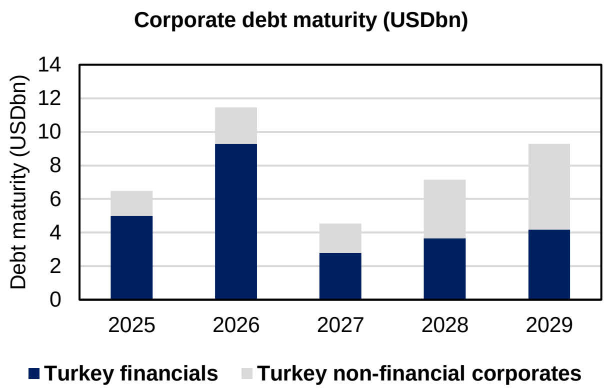
Source: Bloomberg bond indices, and ADCB Asset Management

Exhibit 5: 43% of total external debt due to mature in five years



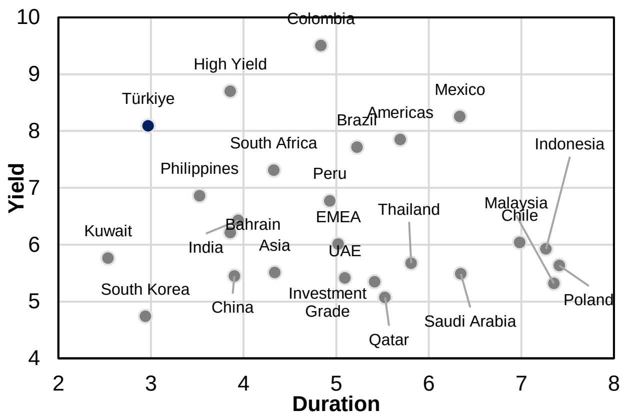
Source: Bloomberg and ADCB Asset Management

Exhibit 6: Lower near-term refinancing risk for corporates



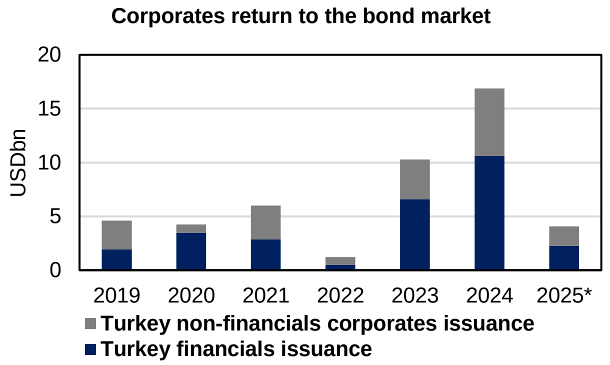
Source: Bloomberg, and ADCB Asset Management

Exhibit 7: Türkiye corporate bonds offer attractive risk premium



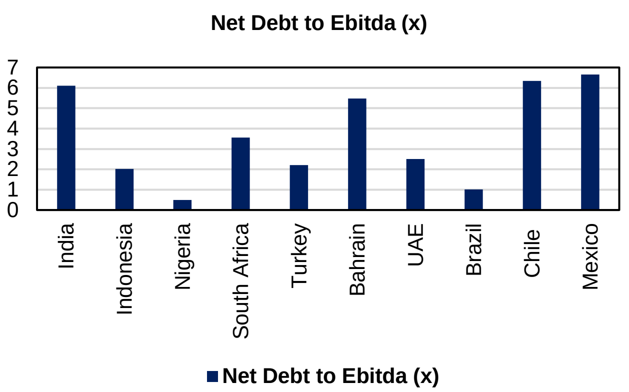
Source: Bloomberg EM corporate + quasi sovereign bond indices and ADCB Asset Management

Exhibit 8: Türkiye corporate issuance activity has been slow



Note: *2025 issuance is from 1 January 2025- 16 May 2025 | Source: Bloomberg, and ADCB Asset Management

Exhibit 9: Strong corporate fundamentals



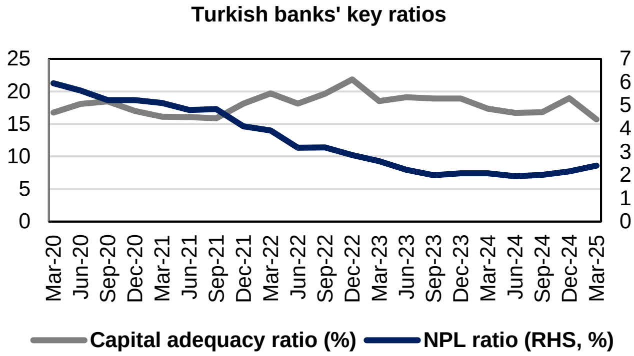
Note: Based on average corporates who have outstanding active bonds using Bloomberg fixed income screening | Source: Bloomberg and ADCB Asset Management

Exhibit 10: Türkiye has better credit profile across sectors

Corporate Sector	Net Debt to Ebitda	Average EM (Net Debt to Ebidta)	FCF/Total debt	Average EM (FCF/Total Debt)
Communications	1.0	1.5	0.3	0.2
Consumer discretionary	2.5	8.5	0.0	0.4
Consumer staples	0.7	2.8	0.2	0.1
Industrials	2.5	8.7	0.2	0.1
Materials	1.7	5.4	0.1	0.0
Utilities	5.5	4.8	0.1	0.1
Total average	**2.3**	**5.3**	**0.1**	**0.1**

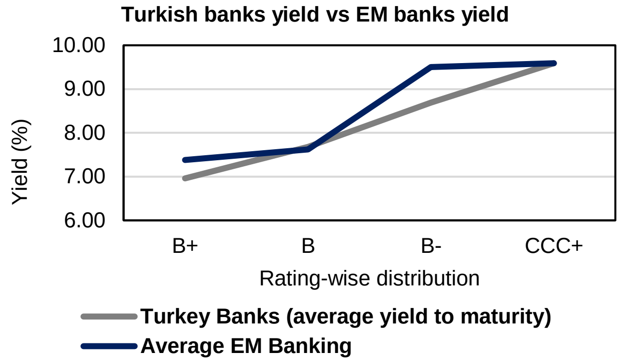
Note: Based on average corporates who have outstanding active bonds using Bloomberg fixed income screening | Source: Bloomberg and ADCB Asset Management

Exhibit 11: Adequate capital ratios and asset quality



Source: Bloomberg and ADCB Asset Management

Exhibit 12: Türkiye's single B rated and CCC rated bank bonds look attractive



Note: Based on average corporates who have outstanding active bonds using Bloomberg fixed income screening | Source: Bloomberg and ADCB Asset Management

Exhibit 13: Attractive AT1 valuations versus fundamentals

AT1s	Average yield	Tier 1 CET ratio	Tier 1 ratio	No of bonds
Türkiye	9.10	13.92	18.33	8
UAE	7.53	13.51	15.91	14
Oman	8.26	13.07	16.32	6
Bahrain	8.77	13.50	15.60	3
Saudi	6.39	14.47	17.69	27
Kuwait	6.79	13.45	15.82	9
Qatar	7.03	14.03	17.22	5
Global Tier 1 Index*	6.25			299

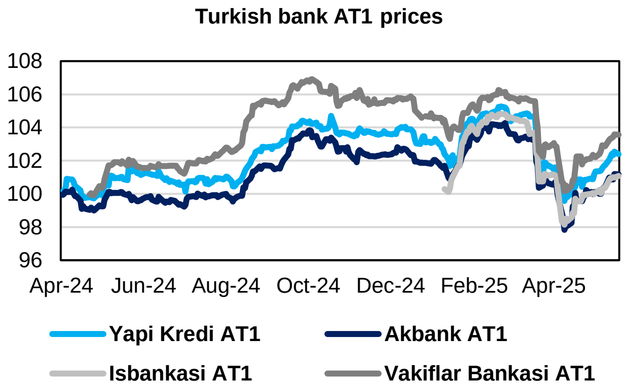
Note: Based on average corporates who have outstanding active bonds using Bloomberg fixed income screening, *refers to Bloomberg Global Tier 1 Index |Source: Bloomberg and ADCB Asset Management

Exhibit 14: Attractive Tier 2 valuations versus fundamentals

Tier 2	Average yield	Tier 1 CET ratio	Tier 1 ratio	No of bonds
Türkiye	8.83	14.99	16.44	21
UAE	6.02	14.03	15.41	5
Saudi	7.00	-	-	1
Kuwait	6.27	12.90	15.00	3
Global Tier 2	10.99	13.19	14.29	1075

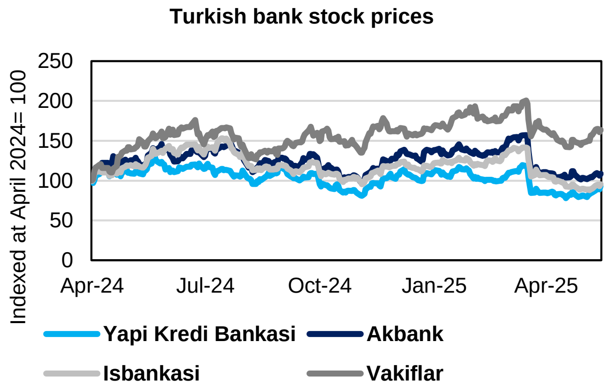
Note: Based on average corporates who have outstanding active bonds using Bloomberg fixed income screening |Source: Bloomberg and ADCB Asset Management

Exhibit 15: AT1 bond prices fell but have marginally recovered



Source: Bloomberg and ADCB Asset Management

Exhibit 16: Türkiye bank stocks more vulnerable



Source: Bloomberg and ADCB Asset Management

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