

The Turkish Constitutional Court has, in a surprisingly timely fashion, delivered its verdict in the case against the ruling AKP and its leading politicians that accused them of threatening the secular basis of the nation.

The AKP has not been banned, neither have its leaders, including Erdogan the prime minister and Gul the president. Although the Court plainly found some merit in the case, it could not muster a sufficient majority to implement a ban; the only censure being an effective fine for the AKP equivalent to around USD 20 million.

There will therefore be no new elections, the AKP will not need to reinvent itself under another name, and the question of whether its leaders can stand as independents simply does not arise. At the same time, the AKP has been reminded that it does not have carte blanche to reinvent the constitution, and Erdogan has responded in a typically conciliatory fashion, stressing the need for all parties to work together for the good of the country. Turkey is now free to continue its programme of economic reform and the goal of EU membership remains very much alive.

It is difficult to imagine a more favourable outcome for Turkey and the financial markets.

Although the Istanbul stockmarket has been strong over recent days as a favourable outcome to the case – though not necessarily one quite so favourable as this – has become generally accepted, it remains undervalued on most valuation yardsticks. It has fallen further than other European markets so far this year and still trades on a single figure prospective earnings multiple, with earnings growth estimates no doubt now likely to be revised higher.

The short term may prove volatile, as traders “sell the fact”, having “bought the rumour” but over the medium to longer term, it is difficult to be anything other than wholly optimistic for Turkish shares. Economic reform is back on track and Turkey’s progress from a European outlier with a boom and bust economy to a major regional centre of activity and stability now seems assured.

Such an outcome has yet to be priced into the Istanbul stockmarket, offering the prospect of some attractive returns for the long-term investor over the period ahead.

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