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| Global Macro Watch

President Erdogan won't waste a failed coup – where will this take us?

Please find as follows our key takeaways following the failed coup with regard to the consequences and further developments for international politics, security, economics, and capital markets.

Amateurish coup attempt

A cynic would say that not even the armed forces in Turkey are what they once were. Gone are the days of a unified and functioning institution founded on Prussian military tradition, the guardians of a secular state since Turkey's founding father Mustafa Kemal Atatürk, firmly anchored in the West traditionally as a loyal, important and effective NATO member.

President Erdogan is bad news – across the board

Few things could have been worse for Turkey than a failed coup. It was unfortunately inevitable that President Erdogan would use this 'gift from God' to mercilessly tighten his grip on power. Out goes the secular, pluralistic, and modern democratic society, and in comes the instantly reinforced repression of non-compliant members of parliament, the judiciary, the security forces and media, and any other resistance to the AKP's one-party democracy.

Turkey – more terrorism, more misery, more disintegration

Turkey matters a lot. Traditionally a great power and civilization, it occupies one of the most important geostrategic locations, with direct neighbors including Greece, Russia, Georgia, Armenia, Iran, Iraq, and Syria.

President Erdogan promised a 'new Turkey' after Friday's failed coup. What this means is nothing less than concentrating ever more power in the presidency. This in turn will lead to deepening divisions with the domestic urban and secular elites, accelerated economic decline, and a rapid escalation in the brutal confrontation with the Kurdish PKK and IS. Needless to say, a very difficult time lies in store for the US, the EU and NATO – with even more difficult choices.

Investors will continue to retreat from risk assets

Given the ongoing developments, the news from Turkey can only go from bad to worse. Investor sentiment has already been severely tested in 2016 by terrorism, Brexit, and now Turkey.

The outlook for the remainder of this year and 2017 is not much brighter, considering the dysfunctional Italian (European) banking system, and the prospect of divisive elections to come in the US, France, and Germany.

These negative developments will postpone monetary policy normalization, which will be particularly bad for the financial sector. The heightened insecurity and uncertainty overall will damage investment, consumption, growth, and employment. As a consequence, international investors will continue to retreat to the sidelines, favoring cash, top-quality sovereign bonds, and selected real assets.

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If you would like more information or would like to discuss this in more detail, please don't hesitate to contact us.