



# KN Market View

## Key Topics

Geopolitical instability has been observed in different regions, with **USDMXN -1.90%** and **USDZAR -2.21%** recovering after recent political developments. In Europe, equity markets also rebounded, led by **Italy +1.97%** and **France +1.67%**, following the previous week's turmoil after President Emmanuel Macron's dissolution of the National Assembly and call for snap elections [link](#).

In Russia, **MOEX -2.93%** continued its negative trend, impacted by new US sanctions that have forced an immediate suspension of trading in dollars and euros on its leading financial marketplace [link](#).

Regarding economic data, retail sales MoM came above consensus in the **UK 2.9%** vs 1.5% and **Mexico 0.5%** vs -0.3%.

**Building permits in the US fell by 3.8%** to a seasonally adjusted annual rate of 1.386mn in May 2024, the lowest since June 2020 and below market expectations of 1.45mn [link](#).

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### US Building Permits



Source: Trading Economics

This week, the focus will be on **inflation** rates for Europe, Canada, Indonesia, South Korea and Mexico, the **US GDP growth rate** and durable goods orders, and **China caixin manufacturing PMI**. **Consumer and business confidence** will be released for major economies.

The following companies will release their quarterly earnings reports: FedEx, **Micron Technology**, Paychex, General Mills, and **Nike**.



## Government Bonds and Currencies

As we discussed last week, South Africa is seeing signs of **political stability**. This positive outlook is benefiting the country's financial landscape, “the formation of a government of national unity is being liked by investors as the new government sets a platform for accelerated infrastructure and other reforms, to get the economy back on track after years of low growth and high unemployment” [link](#).

This week after the announcement of the new government cabinet, the **Rand** appreciated by **2.21%** against the US dollar. Meanwhile, its **10Y government bond** yield decreased by **0.46%**, ending the week at **9.9%**.

However, it is important to note that the future performance of macroeconomic variables will be crucial in sustaining or altering the recent positive trends. For instance, this week, the reported inflation was **5.2%**, “South African inflation was stable in May, ..., but analysts do not expect interest rate cuts any time soon as it remains above the central bank’s desired level” [link](#).



### South Africa 10-Year Government Bond Yield



Source: Trading Economics

This week, the **Japanese Yen** depreciated by **1.52%** against the dollar, trading at **159.761 yen per dollar**. The high volatility of the currency has been a persistent issue for the Bank of Japan for several months, causing them to allocate 9.8 trillion yen to intervene in the currency market between March and April. However, it appears this may not be the only intervention they might undertake, as the country's top currency diplomat Masato Kanda said on Friday “Japanese authorities are ready to take action



against speculative and excessively volatile moves in the currency market that hurt the economy” [link](#).

Some of the main factors contributing to the yen's decline include the slow economic growth Japan has experienced in recent years, an aging population, and unresolved macroeconomic issues like inflation, which remains above the central bank's 2% target and “wide interest-rate divergence between Japan and the United States” [link](#).

#### USDJPY



Source: Trading Economics



## Commodities

On the energy front, **Gasoline futures +4.44%** “were near the \$2.5 per gallon mark, hovering close to their highest level in over three weeks amid fresh evidence of lower supply and ample demand. Data from the EIA showed that the United States drew 2.3mn barrels of gasoline in the week ending June 14th, surprising market expectations of a 1.1mn barrel build, and more than twice of an earlier industry report that pointed to a 1.1 million barrel drop” [link](#).

Gasoline



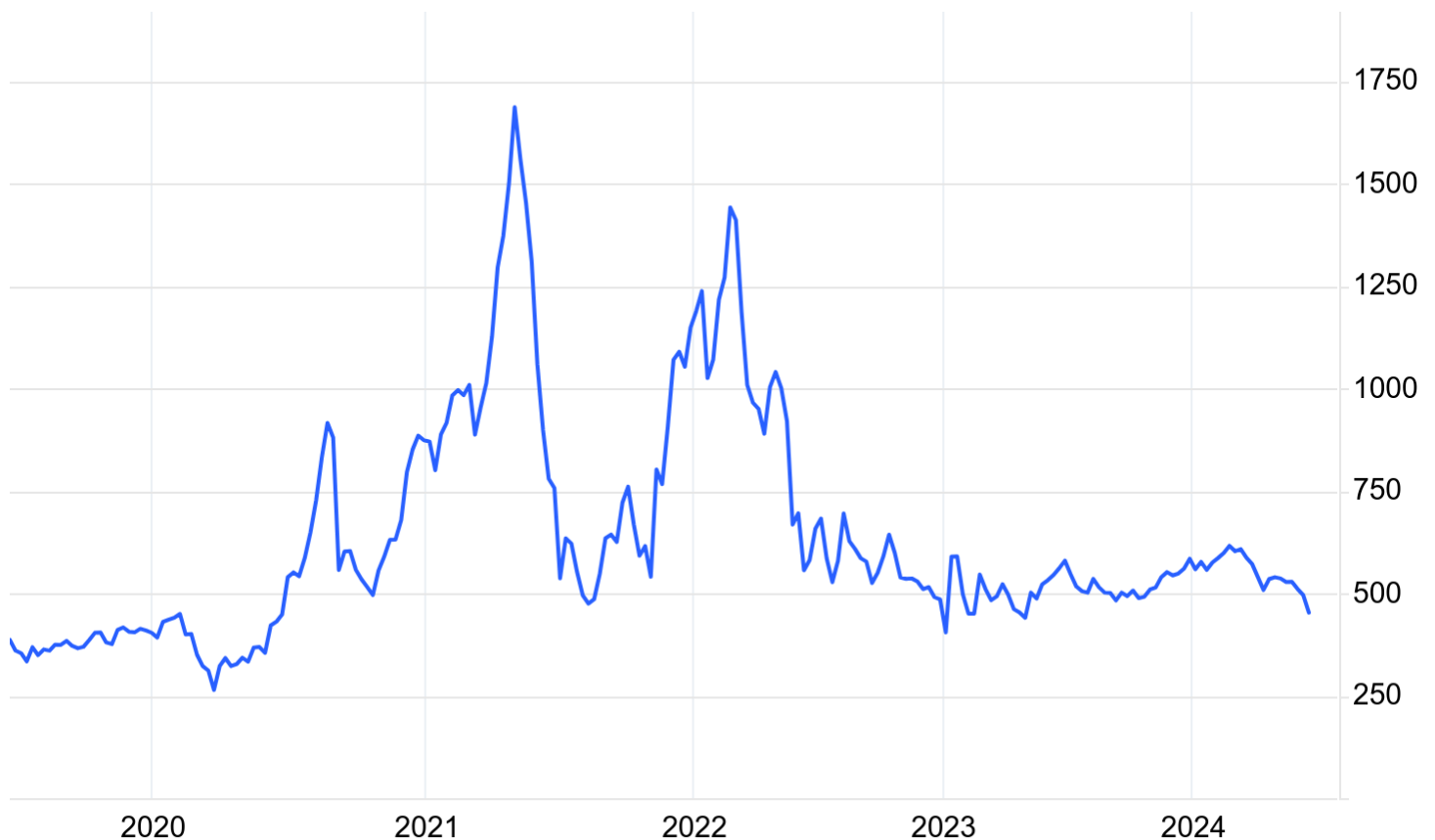
Source: Trading Economics



Soft commodities continued with their negative trend reflecting abundant supply led by **Wheat -6.04%**, **Oat -4.08%**, and **Corn -3.33%**.

**“Lumber -8.68%** prices fell to below \$480 per thousand board feet in June, **marking their lowest point in over a year**, driven by US data showing weaker demand for wood and housing construction materials. Despite the 30-year US mortgage rate remaining below 7%, **disappointing building permits and housing starts data have significantly dampened housing market sentiment”** [link](#).

Lumber



Source: Trading Economics



# Stocks

South Africa had a good week after their presidential election.

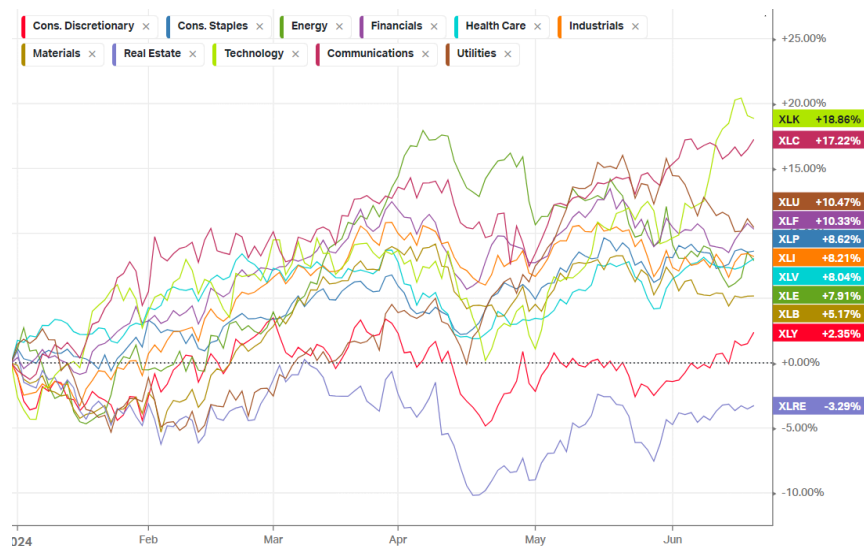
## Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
SAALL	79768	▼ 305	-0.38%	3.52%	0.35%	6.21%
IT40	33309	▼ 366	-1.09%	1.97%	-3.34%	21.52%
FR40	7629	▼ 43	-0.56%	1.67%	-5.73%	5.90%
US30	39150	▲ 16	0.04%	1.45%	-1.31%	15.33%
IBOVESPA	121341	▲ 895	0.74%	1.40%	-3.43%	2.02%
EU50	4896	▼ 51	-1.04%	1.18%	-2.56%	13.75%
GB100	8238	▼ 35	-0.42%	1.12%	-1.58%	9.81%
IPC	52789	▼ 545	-1.02%	1.08%	-6.46%	-1.45%
ASX200	7796	▲ 27	0.34%	0.93%	-0.66%	8.35%
DE40	18164	▼ 91	-0.50%	0.90%	-2.77%	13.61%
NL25	925	▼ 9	-0.92%	0.71%	1.62%	21.87%
US500	5464.62	▼ 8.55	-0.16%	0.61%	2.97%	24.71%
HK50	18029	▼ 307	-1.67%	0.48%	-6.08%	-4.56%
ES35	11032	▼ 128	-1.15%	0.36%	-2.62%	17.81%
SENSEX	77210	▼ 269	-0.35%	0.28%	4.03%	22.09%

Source: Trading Economics

Tech keeps the US rally adding more concentration.

## SPDR Sectors YTD

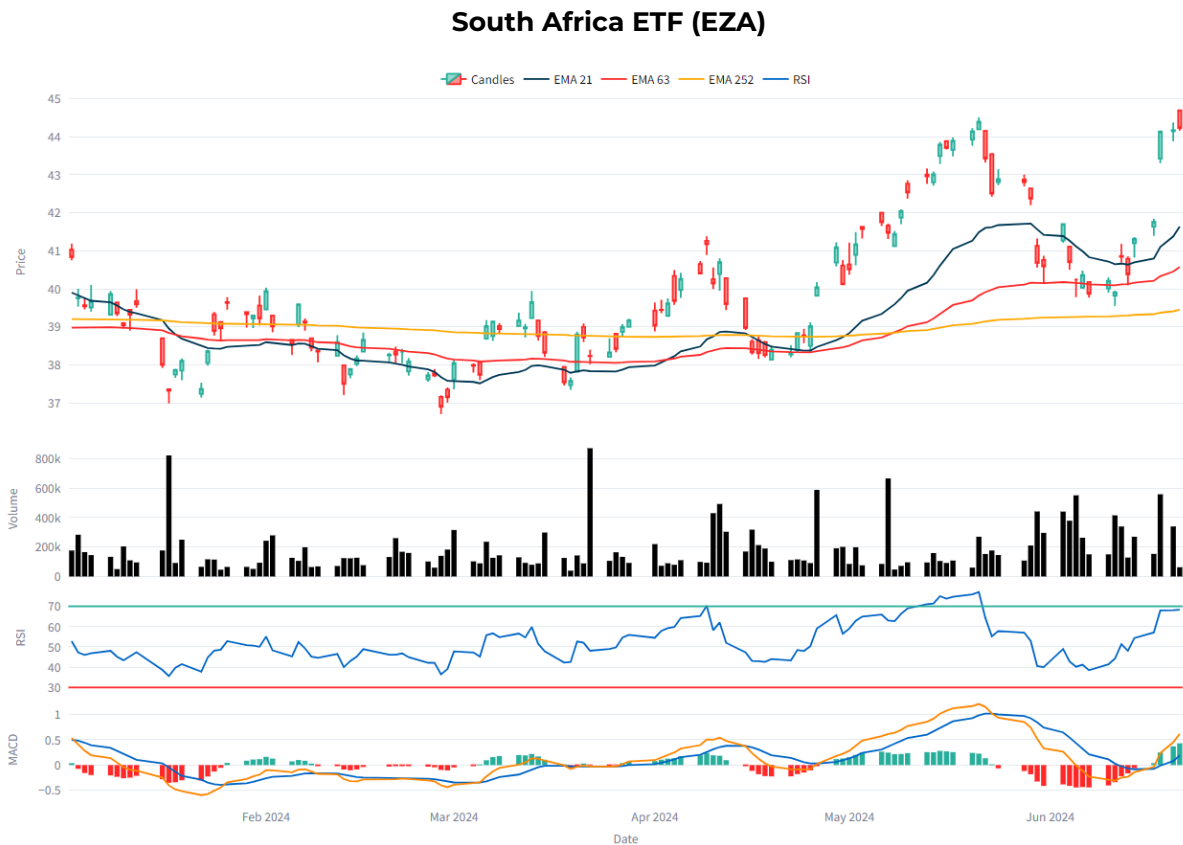


Source: Koyfin





The last player to experience a big move due to elections was South Africa, with a WoW move of about 3%, after **Cyril Ramaphosa was reelected for his second term in the presidential chair**, having secured a power-sharing deal with the opposition Democratic Alliance.

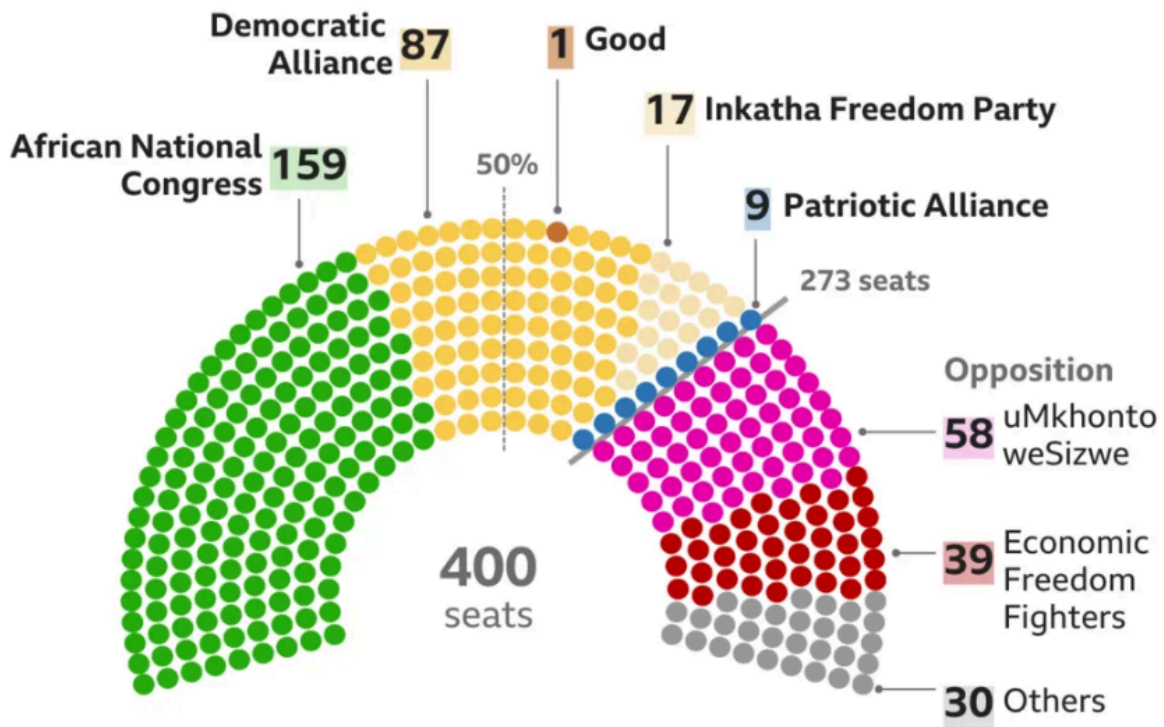


Source: FMP and KaxaNuk

The **new party is probusiness, and investors are hoping that new confidence will help lower foreign outflows**, as South African institutional funds' holding of domestic equities are at all-time lows.

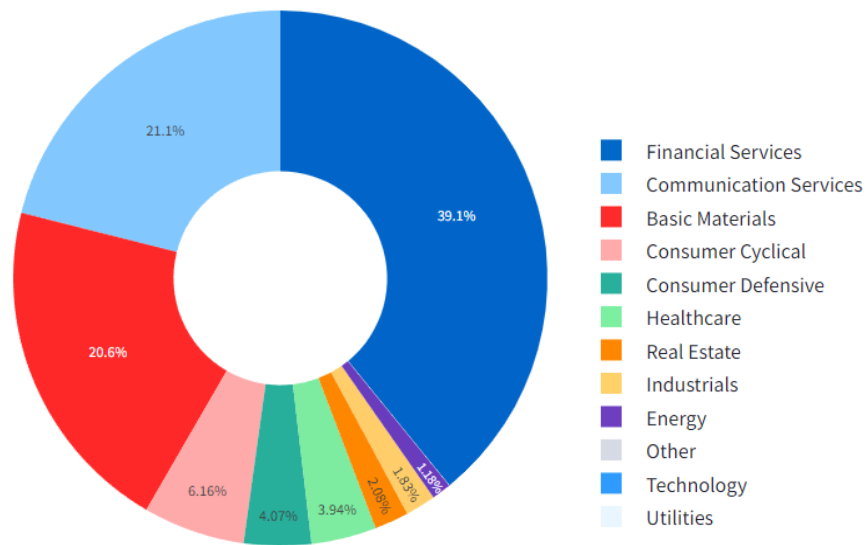


### Parties in Government



Source: BBC

### EZA ETF Sector Composition

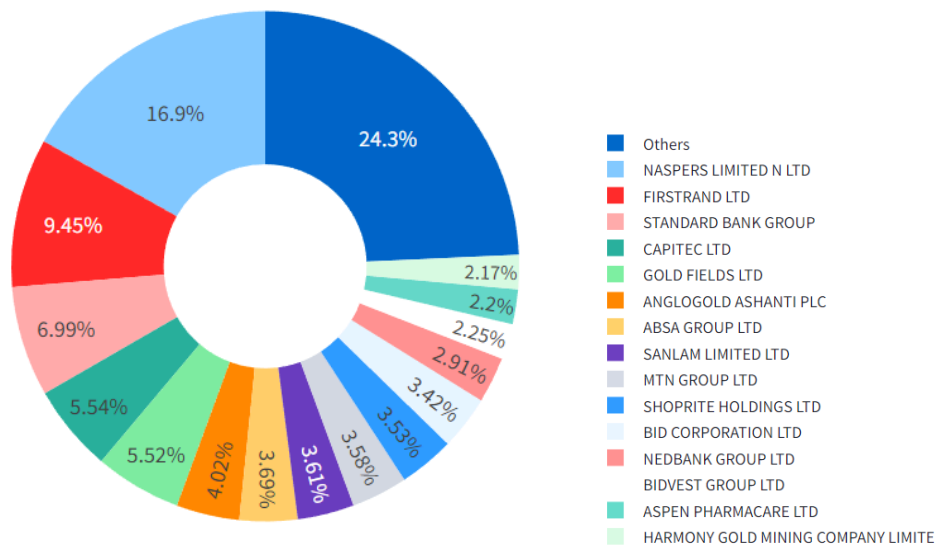


Source: FMP and KaxaNuk



Currently, the biggest sector in the EZA ETF are financial services (39.1%), followed by communication services (21.1%) and basic materials (20.6%). **Standard Bank (SBK:JNG) is the biggest lender in Africa by assets, Naspers (NPN:JNG) is the biggest multimedia company in Johannesburg** and one of the biggest in Africa, while **SANLAM limited (SLM:JSE) is also the biggest insurance company in the continent.** Being exposed to South African markets gives you exposure to most of the African continent.

**EZA ETF Company Composition**



Source: FMP and KaxaNuk

## Crypto

Crypto continued trading under pressure for the second week in a row, news regarding outflows from some ETFs and miners selling have been translated into negative sentiment and uncertainty.



“Recent massive capital outflows from Bitcoin ETFs raise questions: should this be seen as a harbinger of deeper turbulence? Are investors abandoning ship, or is this just a temporary adjustment? With **withdrawals reaching \$139 million in one day**, the current situation necessitates serious reflection.

Among the hardest hit, Grayscale Investments’ GBTC saw \$53 million evaporate, followed by Fidelity Investments with \$51 million. Bitwise and VanEck were not spared, recording withdrawals of \$32 million and \$4 million respectively” [link](#).

#### Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Avalanche	25.31	▼ 2.12	-7.72%	-15.55%	-34.47%	90.51%
Algorand	0.13	▼ 0.01	-4.06%	-11.99%	-27.91%	6.31%
Chainlink	13.4680	▼ 0.3899	-2.81%	-8.86%	-17.85%	123.60%
Bitcoin Cash	386.62	▼ 3.58	-0.92%	-8.46%	-22.44%	186.18%
Stellar	0.09101	▼ 0.00105	-1.14%	-7.27%	-16.35%	2.00%
Solana	132.2600	▼ 1.39	-1.04%	-6.56%	-24.36%	700.77%
Polkadot	5.74	▲ 0.09	1.61%	-6.21%	-22.51%	19.44%
Cardano	0.38669	▲ 0.00248	0.65%	-5.89%	-19.88%	33.20%
Litecoin	74.300	▼ 0.54	-0.72%	-4.35%	-13.57%	-13.89%
Cosmos	6.74	▼ 0.1	-1.52%	-4.11%	-20.21%	-24.50%
Uniswap	9.99	▼ 0.01	-0.15%	-3.23%	7.82%	112.30%
Bitcoin	64176	▲ 107	0.17%	-2.92%	-5.11%	109.83%
Monero	165.261	▼ 4.549	-2.68%	-2.88%	19.67%	9.91%
Binance	586.3	▲ 0.3	0.05%	-2.30%	-3.85%	143.94%
Ether	3486.30	▼ 30.89	-0.88%	-2.07%	-6.90%	84.79%

Source: Trading Economics



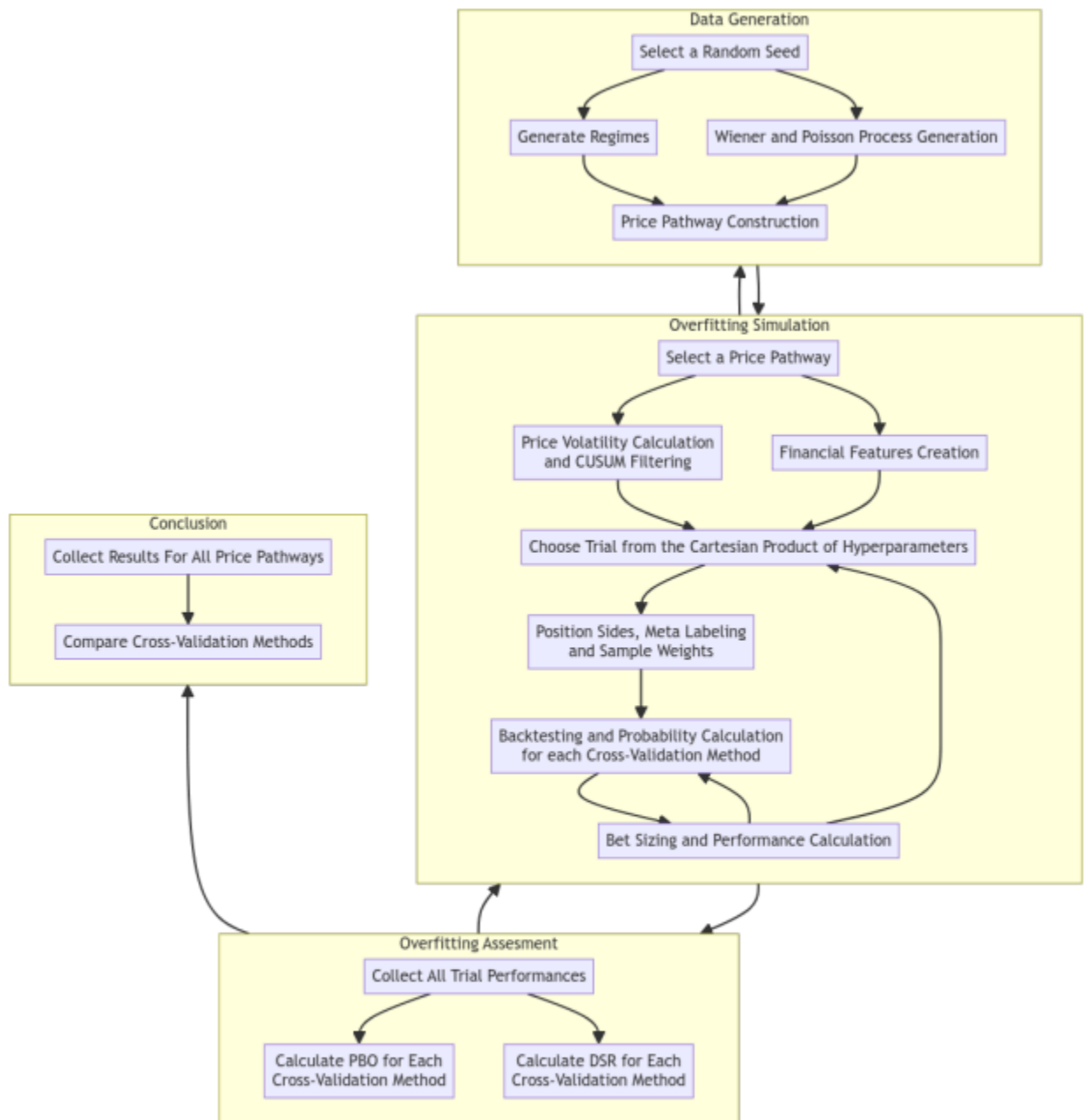
## Weekly Paper Picks

### [Backtest Overfitting in the Machine Learning Era: A Comparison of Out-of-Sample Testing Methods in a Synthetic Controlled Environment](#)

The paper delves into the integration of advanced statistical models and machine learning in financial analytics, emphasizing the **need for robust model evaluation and out-of-sample testing methodologies in quantitative finance.**

It highlights the superiority of the Combinatorial Purged (CPCV) method in mitigating overfitting risks and aims to bridge the gap between theoretical robustness and practical reliability in financial models. The study also presents a comprehensive framework for evaluating out-of-sample testing methodologies, particularly in financial modeling, and contributes to quantitative finance by pioneering a comprehensive framework for evaluating out-of-sample testing methodologies.

The empirical investigation includes a comparative analysis of cross-validation techniques **within a synthetic controlled environment**, focusing on statistical significance, magnitude of differences, and simulation independence.



**Figure 1: Flow Chart of the Empirical Results Simulation**

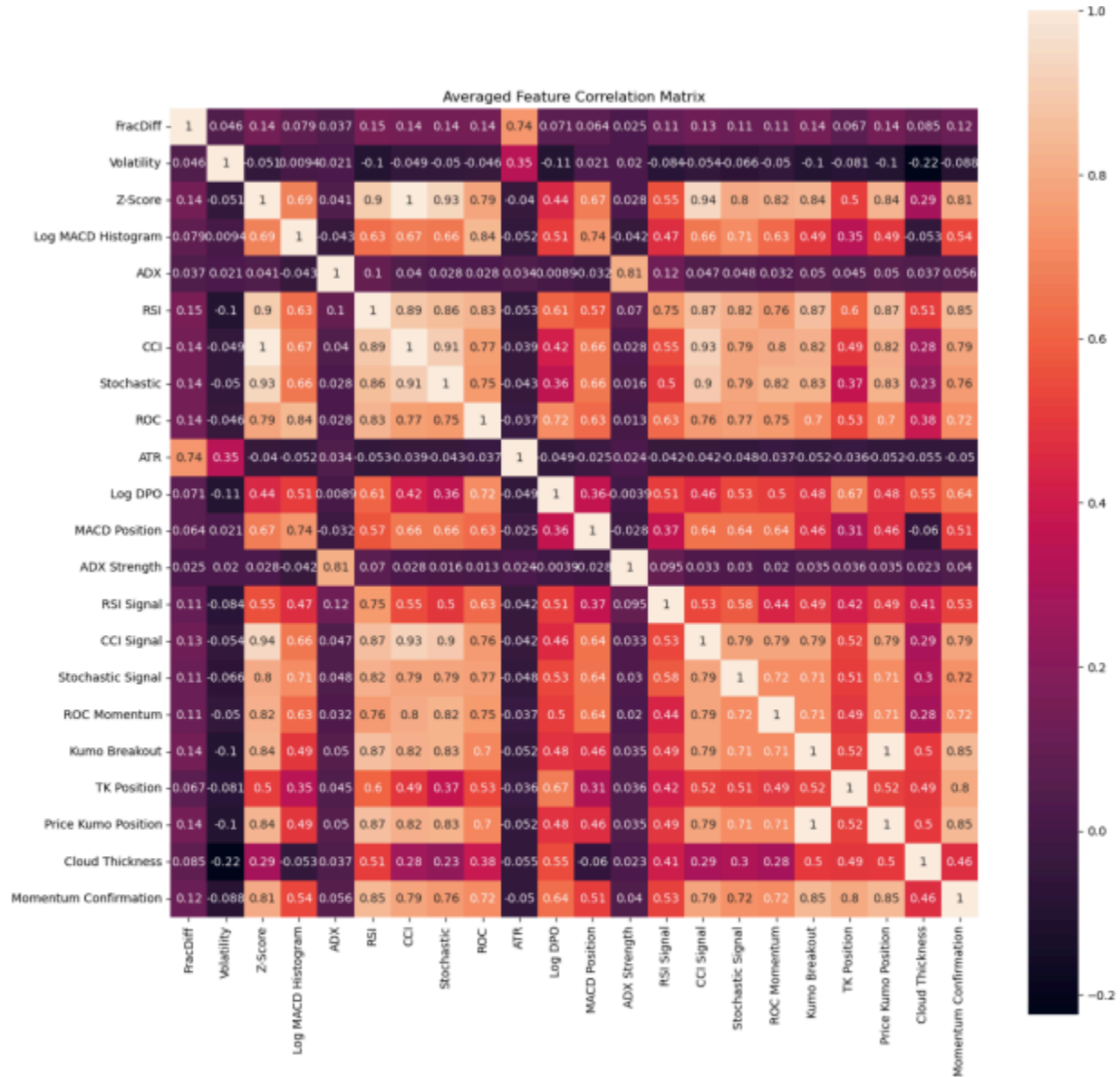
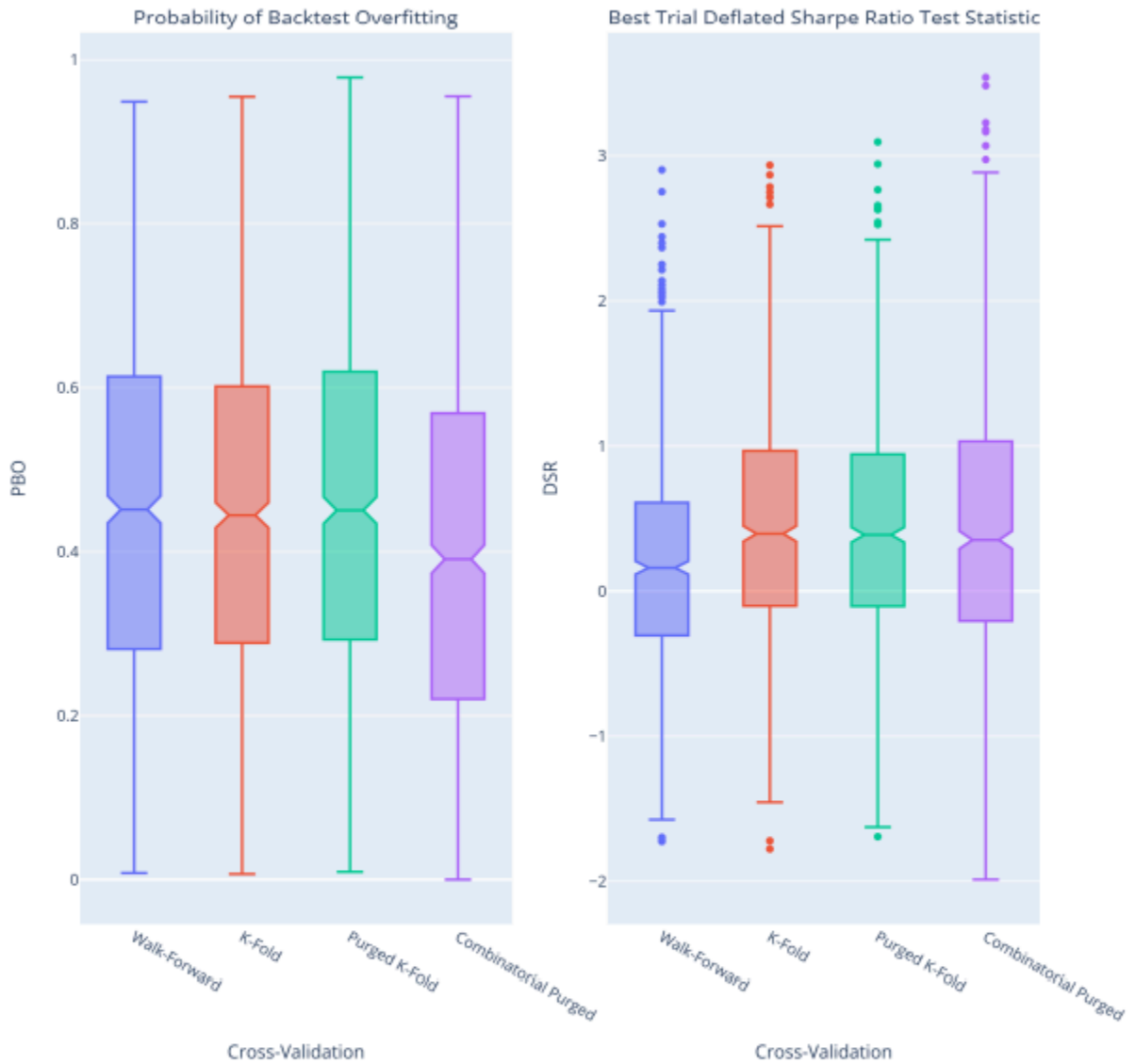


Figure 9: Average Feature Correlation Matrix



Comparison of Overall PBO/DSR Values Across Simulations For Each CV Method



**Figure 13:** Comparison of Overall Probability of Backtest Overfitting and Best Trial Deflated Sharpe Ratio Test Statistic Values Across Simulations For Each Cross-Validation Method





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