



May 12, 2024

KN Market View

Key Topics

Equity markets continued with their positive trend after the first adjustment of the year boosted by technology companies' strong Q1 reports. This week all eyes will be on **US inflation data** (consensus 3.4%, previous 3.5%), also worth watching UK Unemployment Rate, Zew Economic Sentiment Index, US PPI and Building Permits, **Japan GDP**, and **China Industrial Production**. **Retail Sales** will be published for Türkiye, Indonesia, Colombia, South Africa, US, and China.

European equity markets led this week's rally with **Germany +4.28%** closing at its all-time high, **Switzerland +4.26%**, France +3.29%, Italy +3.06% and UK +2.68%.

Natural Gas +5.14% and **Ethanol 3.72%** continued with its positive trend, while Gasoline closed at its two month low. **Potatoes** prices jumped **53%** due to extreme rain [link](#), **Eggs -22%** closed at December's levels. **Containerized Freight Index** finished at its highest level since **September 2022**. Precious Metals outperformed broad commodities **Silver +6.09%**.

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Bonds

Last week was very quiet with **Brazil** and **Mexico 10Y** rates ending slightly higher ahead of this week's US inflation data and despite their central banks announcements.

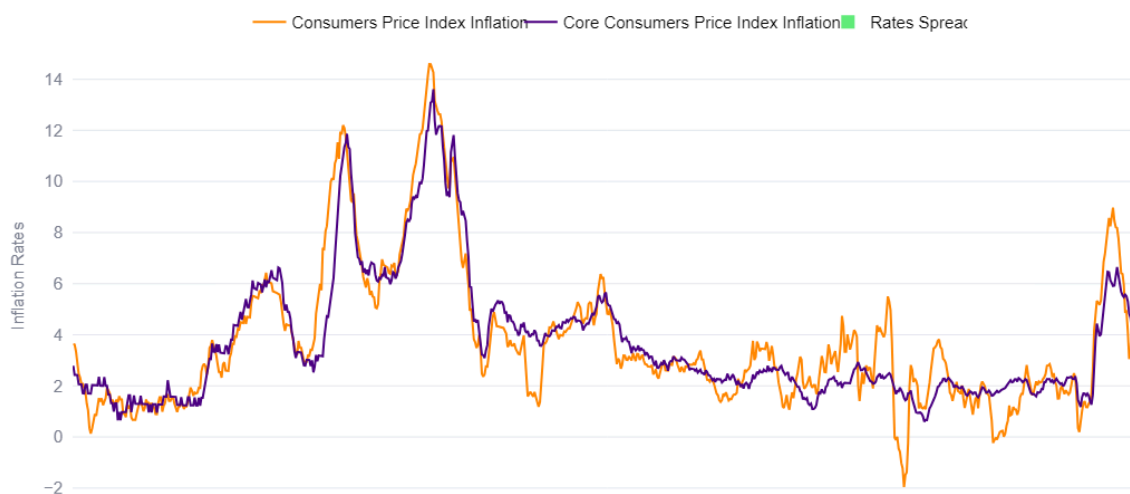
Monetary Policy Interest Rates

Country	Date	Actual	Previous Month	Previous 6M	Actual - 1M previous	Actual - 6M previous
United States 🇺🇸	2024-05-01	5.50%	5.50%	5.50%	0.00%	0.00%
Argentina 🇦🇷	2024-05-02	50.00%	60.00%	126.00%	-10.00%	-76.00%
Australia 🇦🇺	2024-05-06	4.35%	4.35%	4.10%	0.00%	0.25%
Brazil 🇧🇷	2024-05-08	10.50%	10.75%	12.25%	-0.25%	-1.75%
United Kingdom 🇬🇧	2024-05-09	5.25%	5.25%	5.25%	0.00%	0.00%
Mexico 🇲🇽	2024-05-09	11.00%	11.00%	11.25%	0.00%	-0.25%
Peru 🇵🇪	2024-05-09	5.75%	6.00%	7.25%	-0.25%	-1.50%

Source: Trading Economics

US 10Y bonds seem to be stabilizing around 4.50%. Core inflation is expected to come at 3.6%, previous 3.8%.

US CPI vs Core CPI



Source: KaxaNuk and Econdb



US Government Bonds 10Y Yield

US 10 Year Note Bond Yield



source: tradingeconomics.com

Source: Trading Economics

Currencies

Regarding currencies, **USDCLP -1.29%** and **USDMXN -1.14%** continued with its positive trend since April high, outperforming **USDBRL +1.69%** which traded under pressure probably after the Brazilian central bank lowered rates. **USDJPY -1.80%** continues to be very volatile despite the recent Japanese intervention that signals a **¥160** line in the sand [link](#).



USDMXN

US Dollar Mexican Peso



source: tradingeconomics.com

Source: Trading Economics

Commodities

Precious metals led this week's rally with **Silver +6.09%**, Platinum +4.8% and Gold 2.54%. **Silver** seems to have a strong resistance around **28 USD/t.oz.**



Silver

Silver



source: tradingeconomics.com

Source: Trading Economics

On the energy front, **Natural Gas +5.14%**, **Ethanol +3.72%**, and **Coal +3.01%** continued with their positive trend. Let's see if Natural Gas breaks its 2.25 USD/MMBtu level.



Regarding soft commodities, **Lumber** remains under pressure (**-22% since March**) reaching its lowest level since October 2023 on softer consumer demand.

Lumber

Lumber



source: tradingeconomics.com

Source: Trading Economics

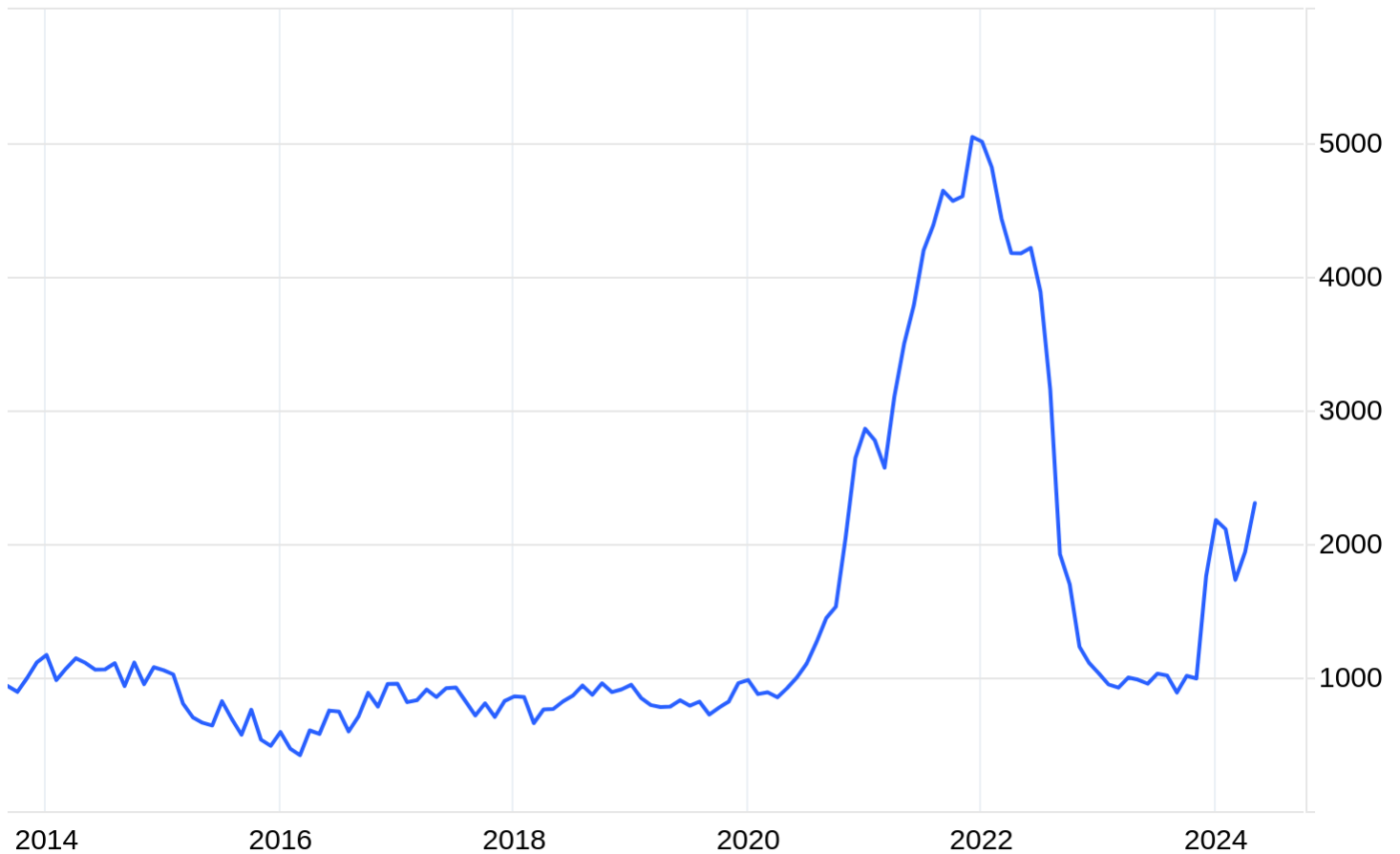
Containerized Freight Index reaching its highest level since September 2022, *“The ongoing crisis in the Red Sea is significantly impacting shipping lines and their costs. Maersk is preparing a series of surcharges*



to cover a 40% increase in fuel costs. Shipping lines are also addressing an estimated 20% shortage of containers on the market” [link](#).

Containerized Freight Index

Containerized Freight Index



source: tradingeconomics.com

Source: Trading Economics

Stocks

European equities led last week's rally with the **Euro Area Stock Market Index closing at its highest level since 2000**. “**UBS** reported a profit of \$1.76 billion attributable to shareholders in the first quarter, more than



double the expected profit of \$602 million forecast by analysts” [link](#).
“**BMW** reported a slight boost in first-quarter sales, driven partially by demand for electric cars, as it hailed the delivery of its millionth fully-electric vehicle in a milestone for the company” [link](#).

Next week Earnings

Ticker	Company	Date	Sector
WFC	Wells Fargo & Company	Mon, May 13	Financial Services
PBR	Petróleo Brasileiro S.A. - Petrobras	Mon, May 13	Energy
HD	The Home Depot, Inc.	Tue, May 14	Consumer Cyclical
TCTZF	Tencent Holdings Limited	Tue, May 14	Communication Services
AMADY	Amadeus IT Group, S.A.	Tue, May 14	Consumer Cyclical
BABA	Alibaba Group Holding Limited	Tue, May 14	Consumer Cyclical
SONY	Sony Group Corporation	Tue, May 14	Technology
MSBHF	Mitsubishi Corporation	Tue, May 14	Industrials
SMFNF	Sumitomo Mitsui Financial Group, Inc.	Tue, May 14	Financial Services
NTDOY	Nintendo Co., Ltd.	Tue, May 14	Communication Services
ITOCY	ITOCHU Corporation	Tue, May 14	Industrials
CSCO	Cisco Systems, Inc.	Wed, May 15	Technology
SIEGY	Siemens Aktiengesellschaft	Wed, May 15	Industrials
MBFJF	Mitsubishi UFJ Financial Group, Inc.	Wed, May 15	Financial Services
ENLAY	Enel SpA	Wed, May 15	Utilities
MURGY	Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München	Wed, May 15	Financial Services



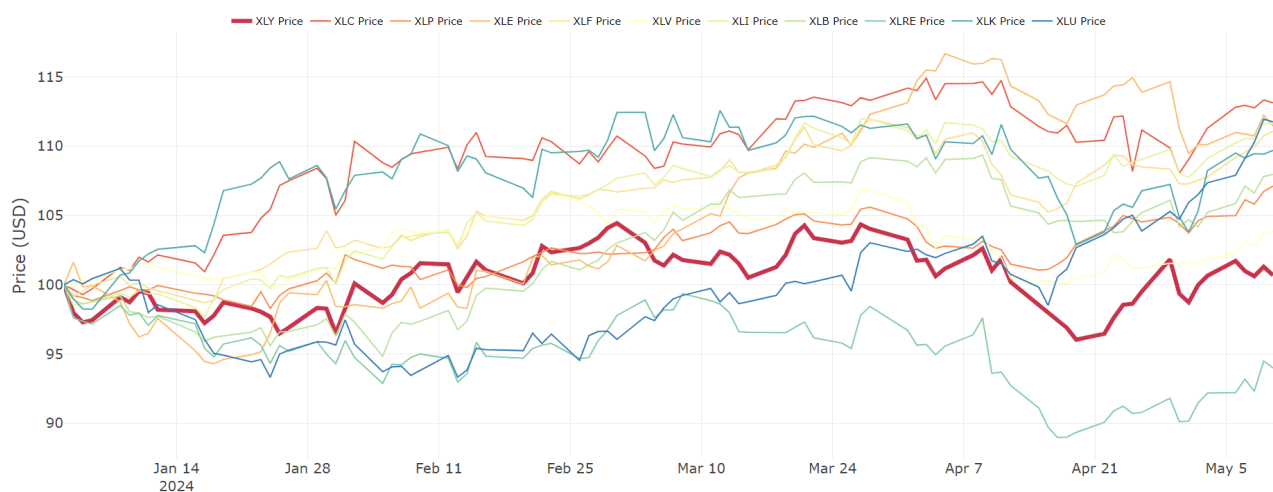
CPRT	Copart, Inc.	Wed, May 15	Consumer Cyclical
WMT	Walmart Inc.	Thu, May 16	Consumer Defensive
AMAT	Applied Materials, Inc.	Thu, May 16	Technology
DE	Deere & Company	Thu, May 16	Industrials
CFRUY	Compagnie Financière RicheMont SA	Thu, May 16	Consumer Cyclical
ROST	Ross Stores, Inc.	Thu, May 16	Consumer Cyclical
ADYYF	Adyen N.V.	Thu, May 16	Technology
TKOMY	Tokio Marine Holdings, Inc.	Fri, May 17	Financial Services

Source: KaxaNuk and FMP

Consumer Discretionary Performance YTD

Since the start of the year, **consumer discretionary has been the second worst performing sector**, just above Real Estate. A couple of weeks ago, we wrote how Nike and LuluLemon were hit by the market after the failure of meeting analyst expectations over a wide variety of their earning figures in their quarterly statements.

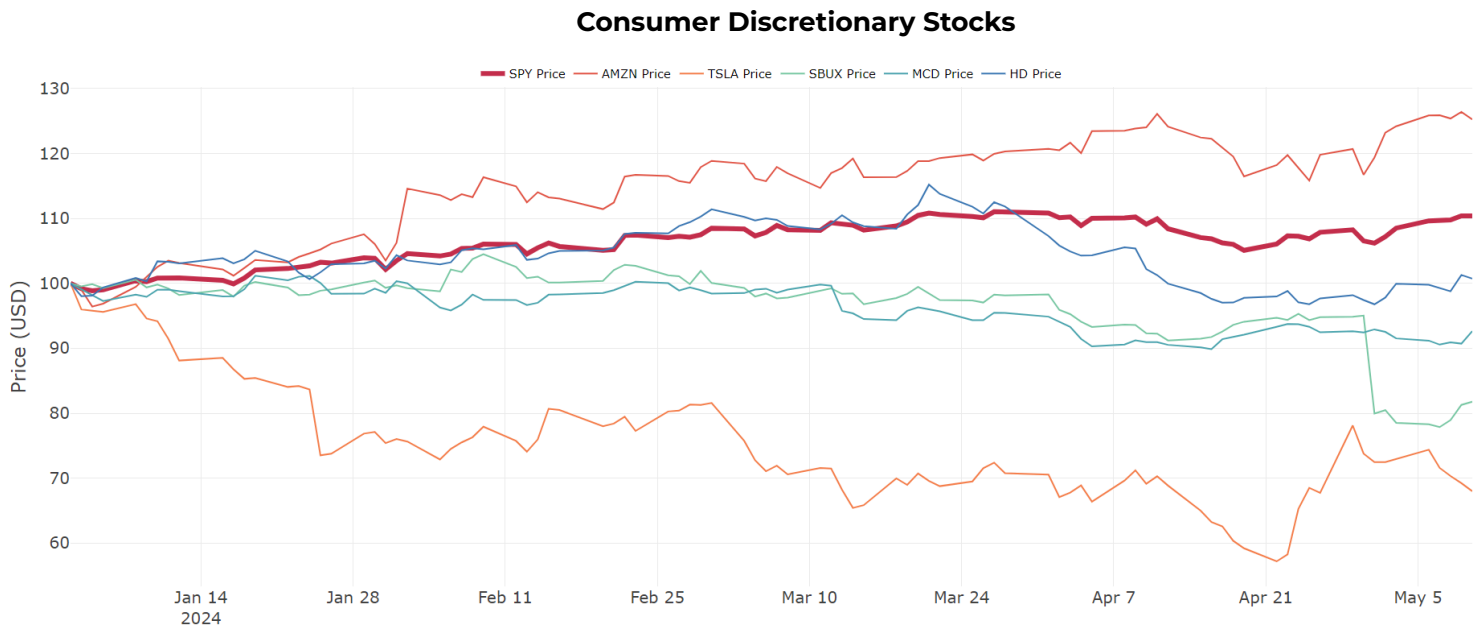
Sector ETF Performance



Source: FMP and Kaxanuk



Almost all consumer discretionary stocks are having a hard time in current economic conditions, as players like **Tesla**, **Starbucks**, **The HomeDepot** and **McDonalds** had a **tough start of the year**.



Source: FMP and Kaxanuk

The latest hit was Starbucks. The company missed expectations across the board for its second quarter earnings, posting lower-than-expected revenue, earnings, and same-store sales growth, as customers pulled back on the frequency of their visits and the size of their orders. **This is Starbucks' first quarterly sales decline since 2020, when COVID shutdowns smashed the industry.**

During the earnings call, CEO Laxman Narasimhan called it a "a highly challenged environment." he added that **macro headwinds**, "particularly around the pressures that consumers face, particularly with the occasional customer, ... that's where the challenge is."



Giving it a more macroeconomic view, **the high interest rate environment is the first factor to take into consideration when looking at the industry.** The worst thing for companies in the Consumer Discretionary sector is that **these high level rates are here to stay, as inflation has been stubbornly high in the first months of the year** and the FED has openly said that rate cuts are not coming soon.

Crypto

Last week crypto traded under pressure underperforming broad markets, "A rapid succession of nearly **\$2 billion of token unlocks during the next ten weeks could lower the market for altcoins**" [link](#).

Avalanche -9.54%, Algorand -8.53%, Polygon-6.70%, Ether -5.86% and Bitcoin -3-8% WoW.

Monero +8.89% managed to outperform the peers, recent news highlighted that "Monero's native coin XMR appears poised to extend its seven-day rally, despite the negative sentiments around the closure of LocalMonero, a peer-to-peer (P2P) trading platform for the privacy coin" [link](#).



Monero

Monero / US Dollar



source: tradingeconomics.com

Source: Trading Economics

Weekly Paper Picks

[Making Optimisation Techniques Robust With Agnostic Risk Parity](#)

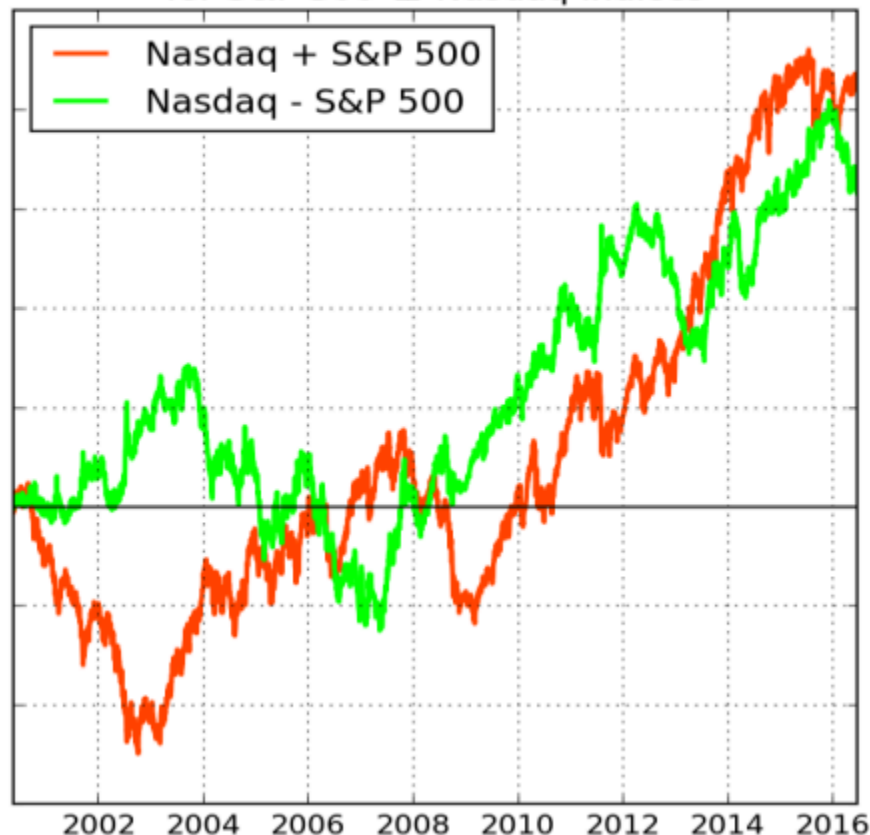
The document discusses the increasing accessibility of the alternative investment industry for diversifying away from traditional portfolios due to low interest rates.



It emphasizes the importance of diversification and presents **Agnostic Risk Parity (ARP)** as a **robust portfolio construction technique**. The document outlines the flaws of traditional Mean Variance Optimization (MVO) techniques and presents ARP as a more robust approach to building portfolios of correlated instruments.

It also discusses the application of ARP to a **Trend Following strategy** and **provides insights into the allocation of risk across different portfolio construction techniques**.

Comparing the risk-adjusted cumulated returns for S&P 500 \pm Nasdaq indices



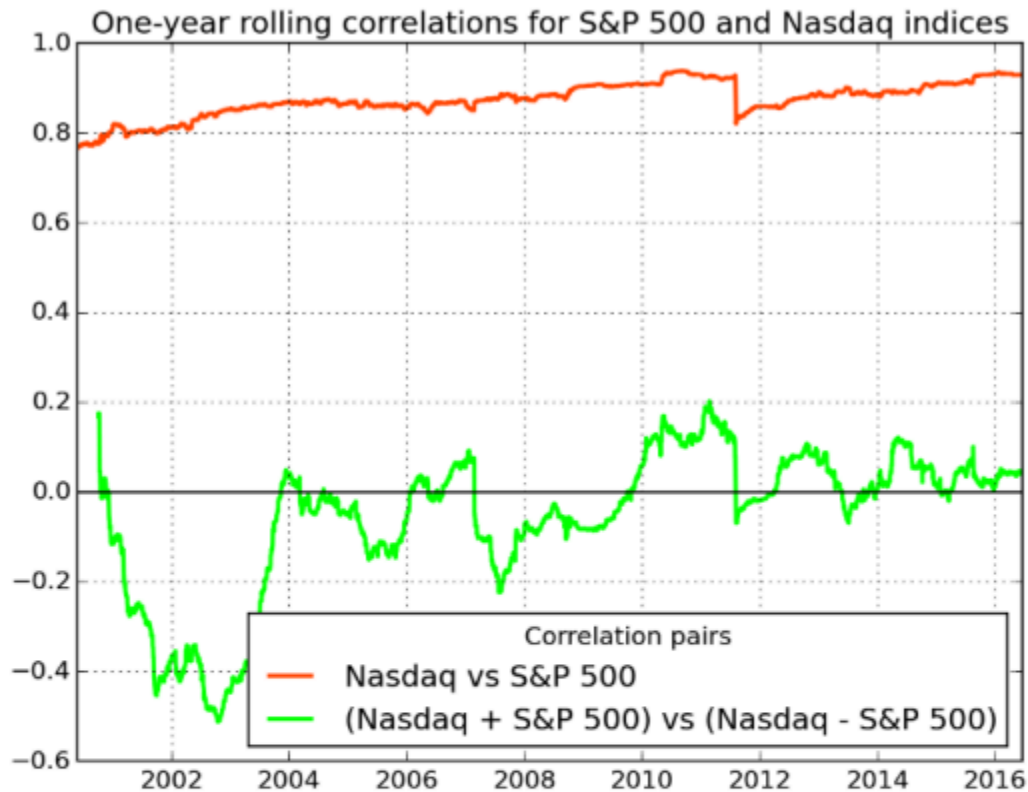


Figure 1: The upper plot shows the P&L curves of an equal long/long position in the Nasdaq 100 and S&P 500 futures and the decorrelated equal long/short positions. On the lower plot we show the correlation between these two futures and the correlation of the long/long combination with the long/short combination. This correlation is seen to consistently be zero.



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