



Jun 16, 2024

KN Market View

Key Topics

Last week European markets traded under pressure led by France, **CAC 40 ended -6.23% lower**, “The shockwave from President Emmanuel Macron's dissolution of the National Assembly and call for snap elections continued to ravage markets, amid fears of an extremist victory in the upcoming elections” [link](#).

Regarding currencies, **Colombian Peso closed at its highest level since October** with concerns regarding fiscal deficit and an increase in debt ceiling [link](#). On the other hand, **South African Rand recovered** as talks to try to form a government of national unity continued [link](#).

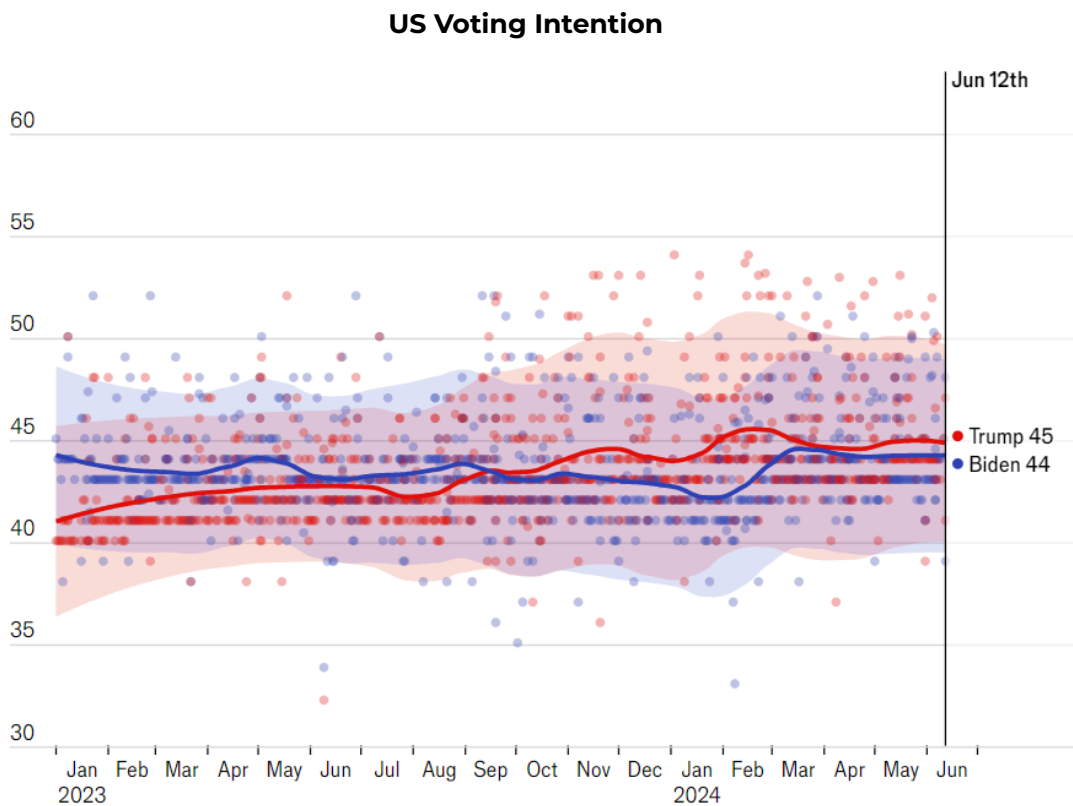
Regarding economic data, *“US inflation fell to 3.3% in May, raising expectations of early interest rate cuts and delivering a boost to the stock market and President Joe Biden.”* [link](#). **US's 10Y** closed at its lowest level since March 4.22%, **S&P 500 Index** recorded a **new all-time high of 5,445**.

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According to The Economist on US elections, “Mr Biden’s presidency has been defined by **high inflation**, big industrial-policy bills, and turmoil abroad. Mr Trump’s supporters tried to overturn his election loss in 2020; he faces federal charges over his alleged participation in that scheme and has been convicted of a felony relating to his 2016 presidential campaign. **The election will be less a popularity contest than a referendum on which man Americans think is the least bad option.** Our election forecast shows the chances each man has of winning a second term in office”. You can find an interesting summary and key dates that will kick-off on June 27th with the first presidential debate, [link](#).

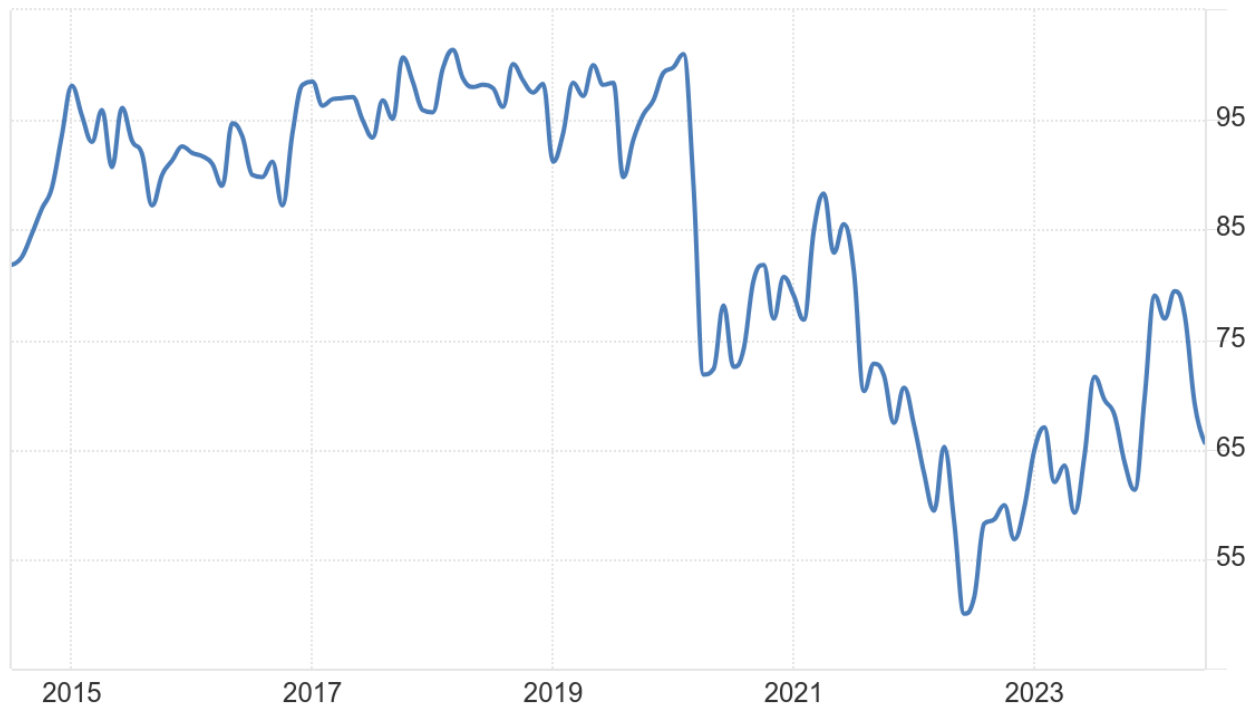


Source: The Economist



The University of Michigan consumer sentiment for the US **fell for a third straight month to 65.6 in June**, the lowest since November.

US Michigan Consumer Sentiment



Source: Trading Economics

In Europe, UK and Italy **industrial production came below market consensus** -0.9% vs -0.1% and -1% vs 0.3%, respectively.

This week, the focus will be on **European and Japan inflation rates**, the US building permits and industrial production. **Retail sales** will be released for major economies. Australia, Brazil, Indonesia and UK rate decisions will be released with no changes expected.



Government Bonds and Currencies

South Africa's 10Y government bond yield dropped by **44 bps** compared to last week achieving a yield of **10.36%** after the two main political parties, the African National Congress (ANC) and the main opposition the Democratic Alliance (DAD), reached an agreement to keep Cyril Ramaphosa as president for another term. This agreement comes after the ANC, president's party's loss of the majority in the congress in the last elections, projecting a sense of calm reflected in the appreciation of **2.74%** of the rand against the dollar this week.

South Africa 10-Year Government Bond Yield

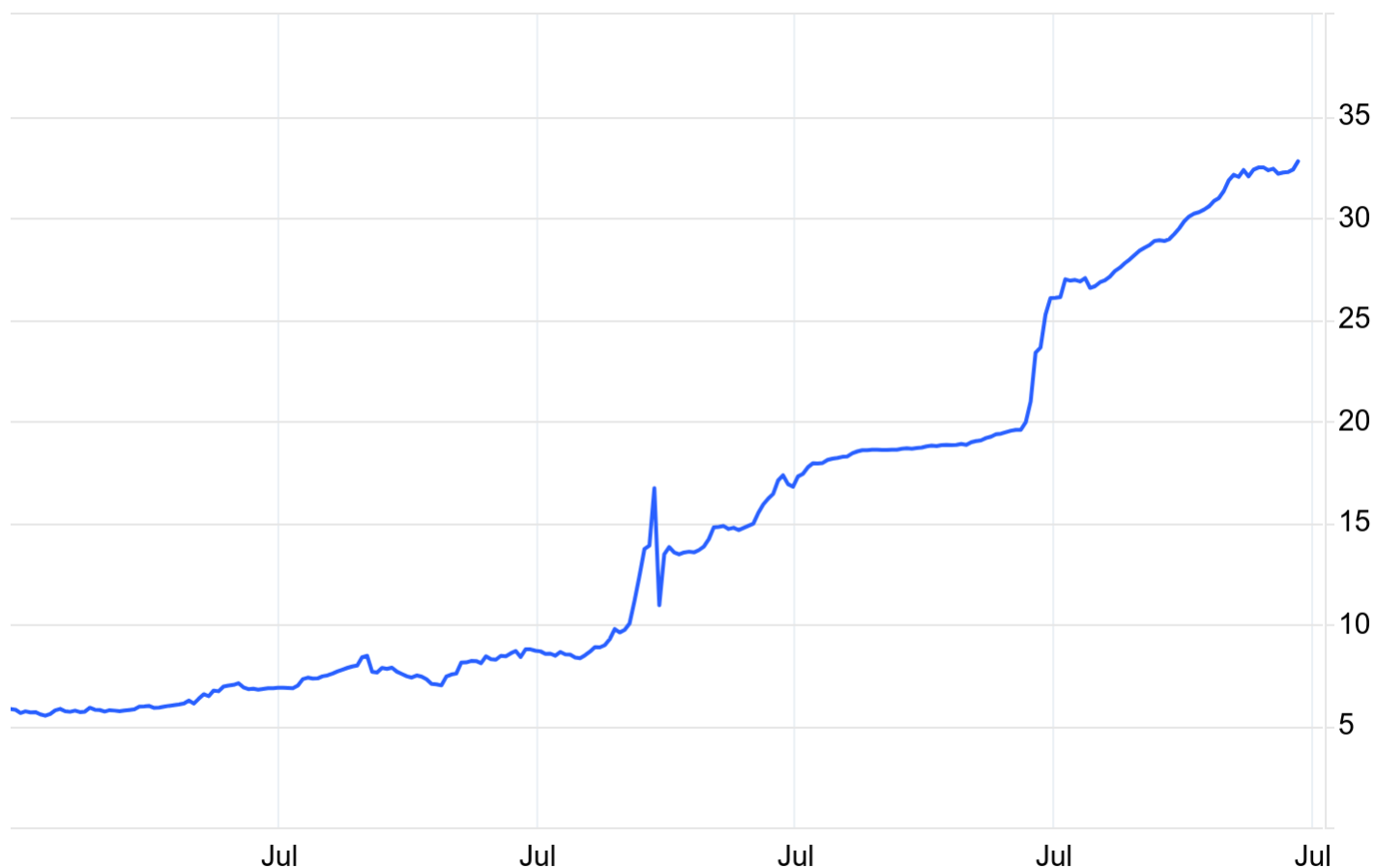


Source: Trading Economics



On the other hand, **Turkey's 10Y** government bond yield increased by **58 bps** compared to the last week, reaching **26.80%**. This occurred after the Central Bank reported an increase in the current account deficit from **4.43B to 5.29B**. In addition to the depreciation of the Lira against the dollar recording a new all-time high, which amounted **1.25%** this week, this scenario coupled with the continuous increase in inflation over the last 6 months, complicates a rate cut in the short term.

USDTRY



Source: Trading Economics



The **Colombian Peso** closed at its highest level since **October** with concerns regarding fiscal deficit and an increase in debt ceiling [link](#). “A collapse in Colombia's tax collection is setting off alarm bells for the market, which says the government will need to contend with an estimated budget shortfall of some 27 trillion pesos, about \$6.9 billion, this year” [link](#).

USDCOP



Source: Trading Economics



Commodities

On the energy front, **Oil +3.87%** ended “higher on expectations that summer fuel demand will draw down inventories” [link](#).

Oil WTI



Source: Trading Economics

Soft commodities traded under pressure, on profit-taking mode **Rubber -6.21%**, and **Cocoa -3.83%**; while Oat -6.11%, and Cotton -3.67% continued with their YoY negative trend. **Containerized Freight Index** continued with its YoY rally **+244.87%**.



Stocks

European political unrest pressured equity markets last week (ex US)!

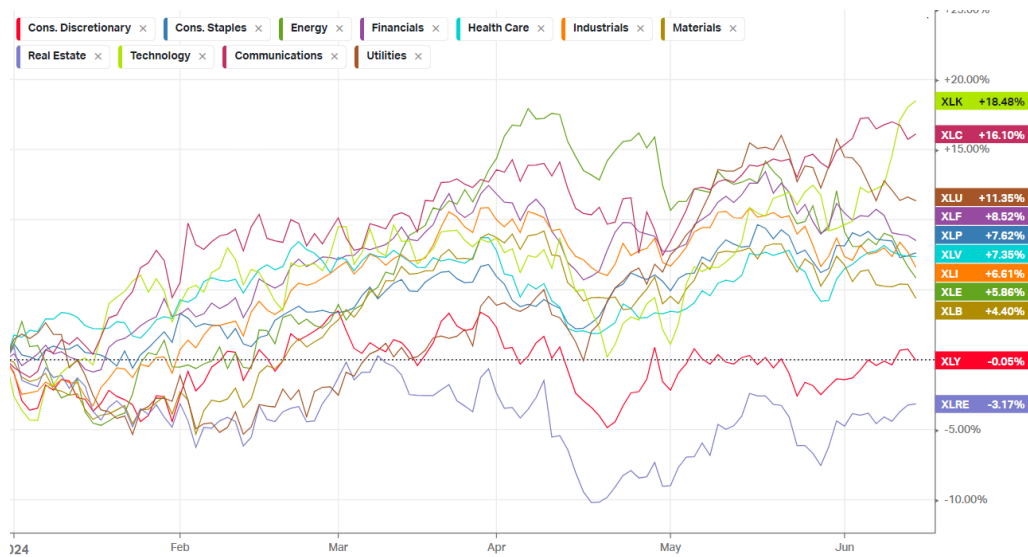
Main Equity Markets Movers WoW

Major	Price	Day	%	Weekly	Monthly	YoY
FR40	7503	▼ 205	-2.66%	-6.23%	-8.94%	2.91%
IT40	32665	▼ 945	-2.81%	-5.76%	-7.64%	17.79%
EU50	4839	▼ 96	-1.95%	-4.20%	-5.13%	10.86%
ES35	10992	▼ 74	-0.67%	-3.62%	-3.26%	16.56%
DE40	18002	▼ 264	-1.44%	-2.99%	-4.60%	10.51%
HK50	17942	▼ 171	-0.94%	-2.31%	-7.40%	-9.52%
ASX200	7724	▼ 25	-0.33%	-1.73%	-0.38%	7.65%
CH20	12045	▼ 51	-0.42%	-1.72%	1.22%	6.56%
TSX	21639	▼ 59	-0.27%	-1.67%	-2.90%	8.05%
IPC	52223	▼ 53	-0.10%	-1.42%	-9.11%	-5.64%
GB100	8147	▼ 17	-0.21%	-1.19%	-3.54%	6.80%

Source: Trading Economics

Technology fueled US equity rally playing as a safe haven.

SPDR Sectors YTD



Source: Koyfin



What is the market outlook after FED's policy decision?

On Thursday, **data revealed that producer prices fell by 0.2% in May from the previous month, which was much lower than analysts had anticipated.** On an annual basis, prices increased by only 2.2%. This came after Wednesday's CPI report, which also showed lower-than-expected figures.

June 4th highlighted the strong job market, with a report indicating that employers added 272,000 new jobs in May, exceeding economists' predictions by thousands. However, the Bureau of Labor Statistics' May report also revealed that the unemployment rate increased to 4% for the first time in over two years.

The reports are giving the markets mixed signals, as the US economy is showing strong increases, but results from **key metrics like GDP growth and inflation are still lagging the good results.**

It's even harder for the FED when looking at the stock market and the rally seen all throughout the running year, **as the high rates and slow growth are not enough to break the stock market rally.**



Jerome Powell openly said in the last FED meeting that they are looking at the **inflation numbers, waiting on them to cool down in order to lower rates**. But US markets have priced the rate cuts since the start of the year, and now, a **78% chance of rate cuts is priced as per CME fedwatch tool for the September meeting**.

Looking at international markets, the picture for the FED doesn't get better, as the **European Central Bank and the Canadian Central Bank have already started lowering the rates**. Having higher rates than other countries is not great for the US dollar, as it will strengthen it, lowering exports and increasing the budget deficit.

The bad news would be if the FED openly states that they will not see a rate cut in this year, **as cuts are already somewhat priced in, this would lead to a market correction**. Overall, **we think that the US market is going to enter in a sideways move through this month**, at least until the next FOMC meeting at the end of July.

Crypto

“The cryptocurrency market is currently going through a delicate period, marked by intense selling pressure. This situation is causing traders to break out in a cold sweat as they helplessly watch the main altcoins fall



below critical support levels. Although accumulation in Spot Bitcoin ETFs is increasing, the trend of massive selling is worrying investors.

Bitcoin miners recently sold more than 1,200 BTC, or about \$80 million, significantly contributing to the recent price correction” [link](#).

Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YoY
Cosmos	7.22	▼ 0.22	-2.90%	-10.79%	-14.55%	-16.48%
Binance	609.5	▲ 8.3	1.38%	-10.20%	7.14%	154.38%
Bitcoin Cash	430.53	▼ 0.83	-0.19%	-9.90%	-7.37%	311.69%
Algorand	0.15	▲ 0.00	0.58%	-7.49%	-11.74%	31.79%
Avalanche	30.04	▼ 0.32	-1.05%	-6.67%	-12.95%	160.49%
Solana	148.4200	▲ 5.4434	3.81%	-6.27%	-7.04%	866.95%
Chainlink	15.0888	▲ 0.3738	2.54%	-5.45%	-2.25%	183.59%
Cardano	0.41557	▲ 0.00437	1.06%	-4.65%	-9.62%	58.04%
Bitcoin	66528	▲ 550	0.83%	-4.01%	1.88%	152.16%
Polygon	0.62	▲ 0.03	5.44%	-3.37%	-10.11%	6.33%
Ether	3592.90	▲ 25	0.70%	-2.45%	22.12%	108.11%
Ripple	0.48869	▲ 0.01127	2.36%	-2.03%	-5.89%	1.84%
Litecoin	79.090	▲ 1.63	2.10%	-1.10%	-4.09%	3.43%

Source: Trading Economics



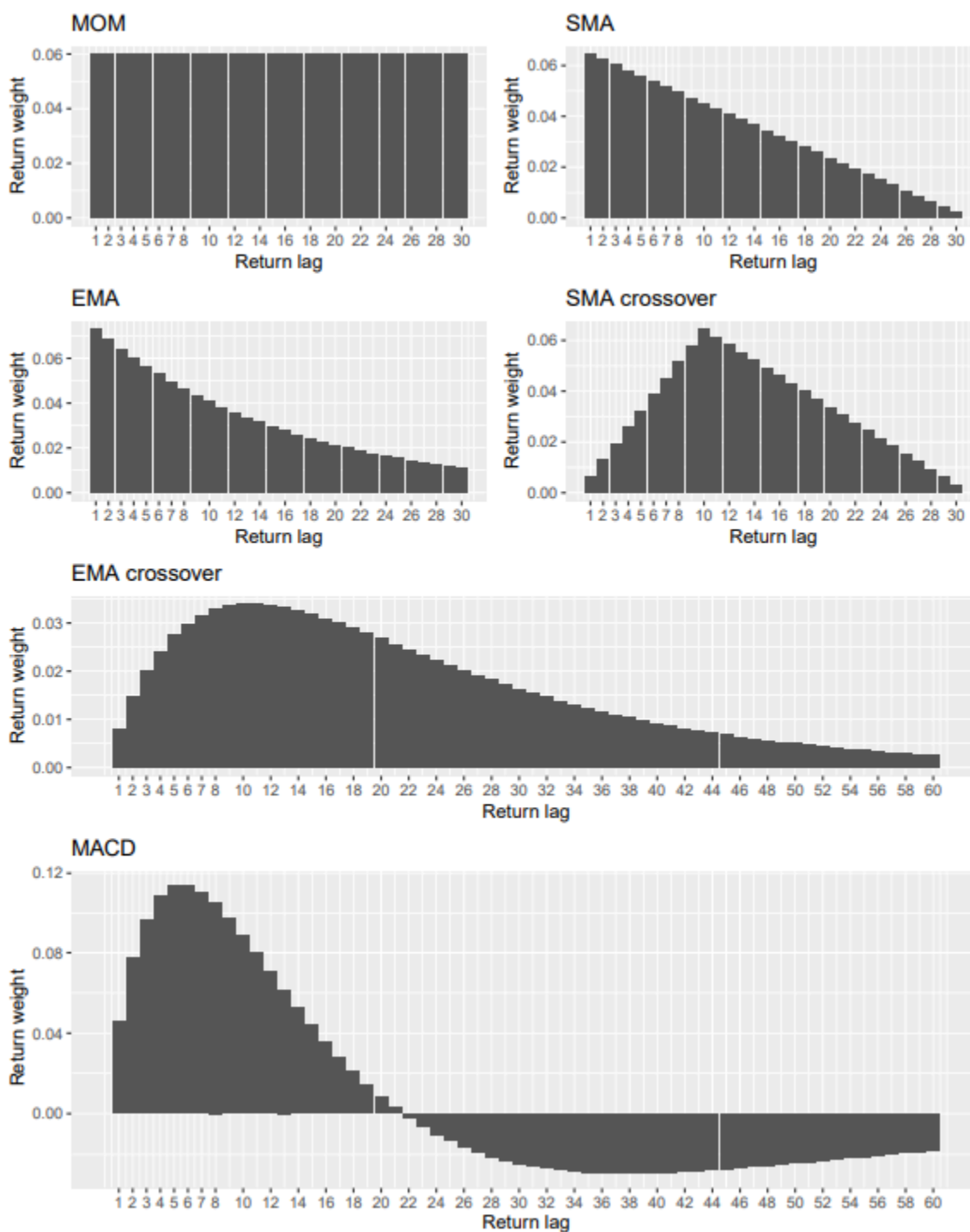
Weekly Paper Picks

[Optimal Trend Following Rules in Two-State Regime-Switching Models](#)

The paper examines the optimal trend-following in a two-state process, **randomly switching between bull and bear markets**. It compares Markov and semi-Markov models and demonstrates the outperformance of the theoretically optimal trading rule.

The authors show that the Markov model is unrealistic and that a **semi-Markov model is more sensible**, leading to a trend-following rule resembling the Moving Average Convergence/Divergence (MACD) rule. An empirical study confirms the superiority of the theoretically **optimal trading rule over popular 10-month Simple Moving Average (SMA) and 12-month Momentum (MOM) rules across international markets**.

There is an interesting video from [Quantopian](#) that discusses this paper.



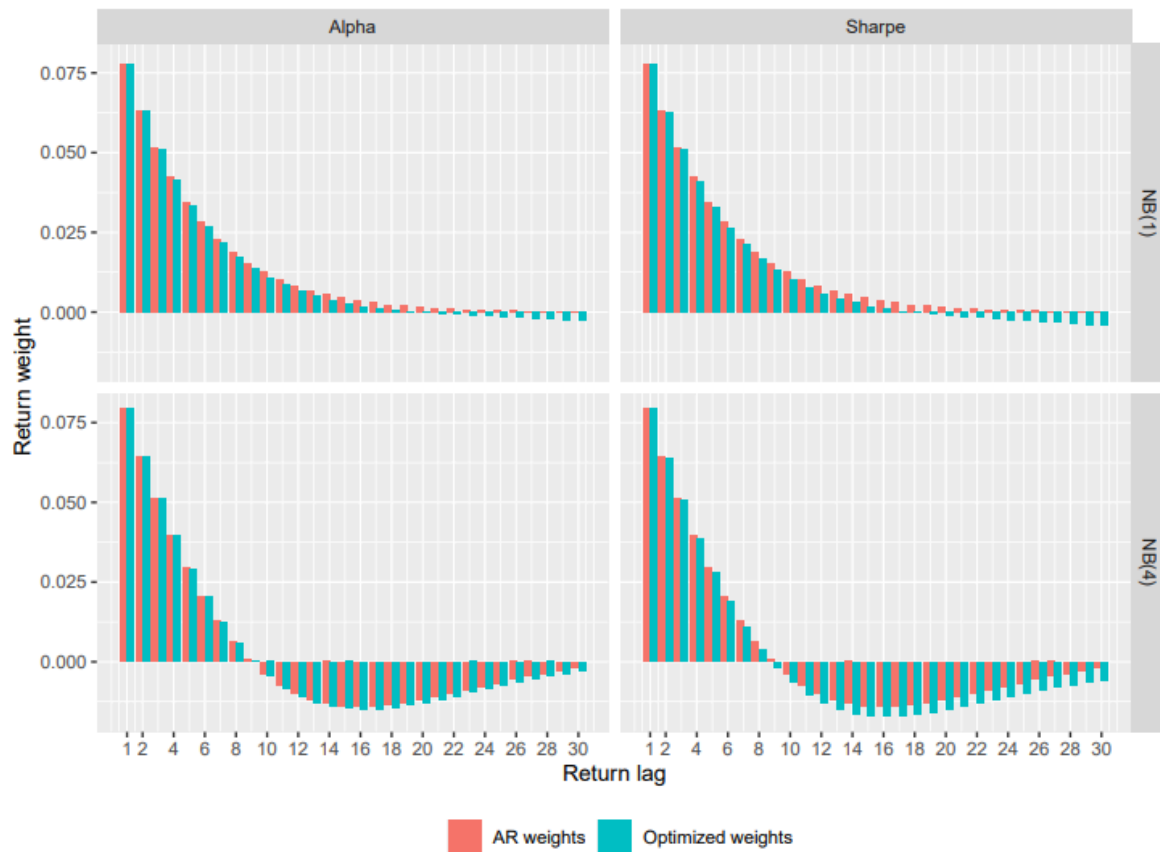


Figure 4: The shape of the AR coefficients of the return process and the shape of the return-weighting function in the optimal trend-following rules. The return weights are cut off at lag 30. The market returns follow either the conventional MSM (NB(1)) or the ESMSM with 4 sub-states for each market state (NB(4)). The objectives in the trend-following rules are to maximize either the Sharpe ratio (Sharpe) or the alpha in the CAPM (Alpha).

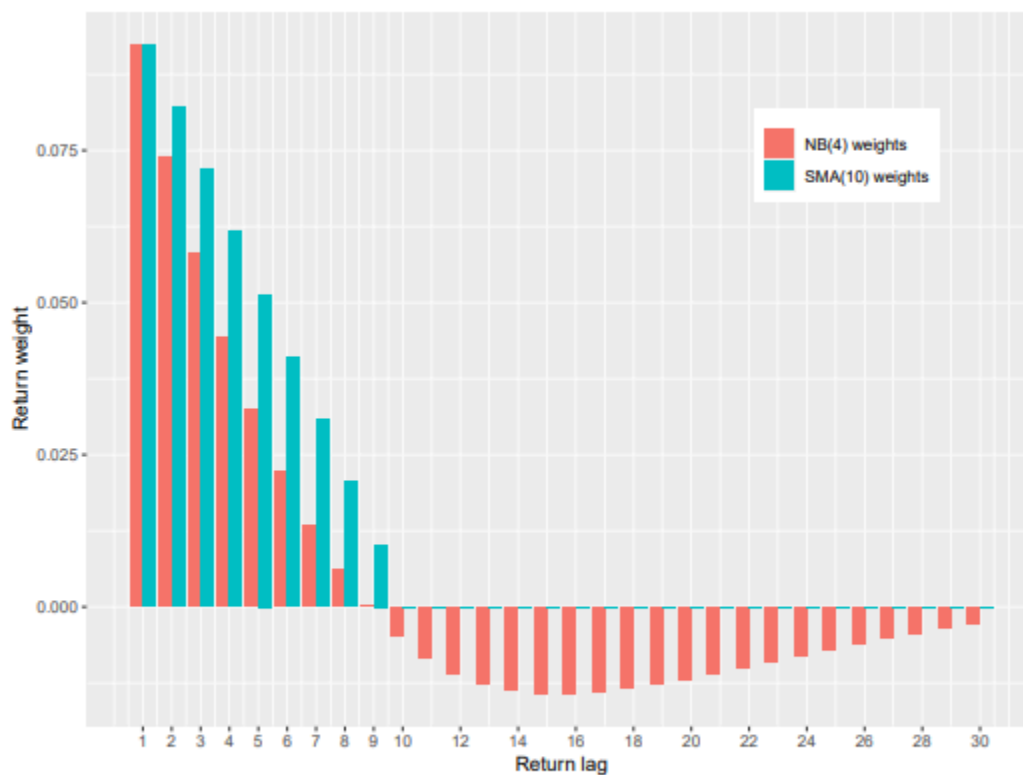


Figure 5: The return weights in the NB(4) and SMA(10) rules.



Contact

research@kaxanuk.mx

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