



Bitcoin and digital assets decline despite another four-decade high in US inflation, as correlations with the Nasdaq continue to hold digital assets hostage to near-term price action

KEY TAKEAWAYS

- + Last week, the Bureau of Labor Statistics reported March headline CPI at 8.5% YoY, another four-decade high
- + As the Fed attempts to combat inflation, subjective monetary policy and the perception of another “policy error” reminds those that bitcoin is an alternative to central bank decision making
- + We discuss correlations with the Nasdaq: as rates move rapidly higher, correlations explain why bitcoin and digital assets remain hostage to the “tech tantrum”
- + We offer many reasons as to why we believe current levels are attractive for long-term investors

THE BIRD'S EYE VIEW

Last week, the Bureau of Labor Statistics reported another four-decade high in US price inflation, with headline at 8.5% year over year and core at 6.5% year over year. This was on the back of news that the Fed will likely begin balance sheet run-off of \$60 billion in Treasuries and \$35 billion in Mortgage Backed Securities per month, and many investors now believe the Fed can no longer achieve a “soft landing.”

As a result, markets have remained volatile, and while the Fed combatting inflation is certainly a positive, nobody trusts the Fed and (almost) everyone is now calling for a recession.

But that's what the Fed gets with subjective and discretionary monetary policy: the group of policymakers waited too long to act on inflation that exceeded their 2% target, and the group masked quantitative easing behind the words “transitory,” “supply chain,” and “average inflation targeting” until March of 2022. The Fed took a calculated bet, and as always, investors believe they made another policy mistake.

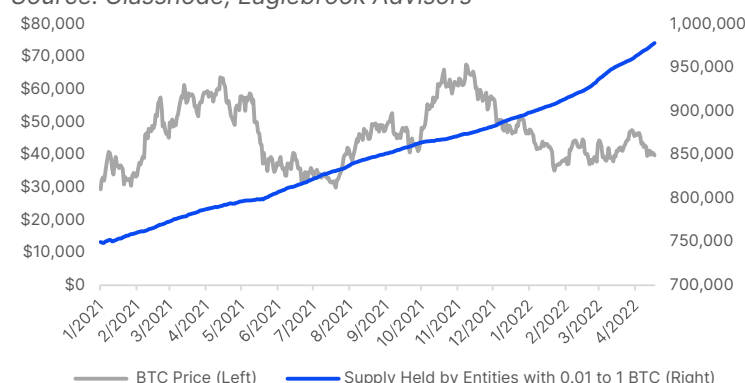
So, while bitcoin continues to be correlated with tech equities, to us, it's not necessarily a bad thing in this uncertain environment. We point out on page two that this provides investors and traders with an understanding of price action.

What's more important, is the long-term benefit for bitcoin as the Fed attempts to navigate what many are already calling a policy error. While central banks utilize subjective discretion for policy decisions, bitcoin is objectively a hard-coded and scarce asset.

The younger generation's growing distrust in governments and central banks bodes well for bitcoin's adoption, which continues despite swings in price action. In fact, small owners of bitcoin continue to accumulate, voting with their pockets as they feel the brunt of rising prices for food, gas, and rent:

SMALL WALLET ACCUMULATION

Source: Glassnode, Eaglebrook Advisors



Since the beginning of the year, accounts holding 0.01 to 1 bitcoin have added over 80,000 bitcoin to their stack, which is slightly over \$3bn based on yesterday's prices. While price action has been held hostage by the rapid rise in interest rates and high correlations with growth and technology, underlying adoption has continued. This to us is another signal that the pullback is macro specific.

So, where do we go from here? Well, if the Fed can manage a soft landing, today's concerns are overdone and there is an attractive opportunity to buy the dip at today's prices. On the other hand, the Fed can induce a hard landing in which equities remain in a drawn-out correction, and bitcoin remains correlated with the group until further awareness of its use-cases provide reason for decoupling.

As you may see, we don't mind today's higher correlation with the Nasdaq in these uncertain times. As we often say, “History doesn't repeat itself, but it often rhymes” – this very environment has been experienced by markets many times, over many decades. Each time, long-term investors have been rewarded for maintaining conviction and holding in the face of uncertainty.



CORRELATIONS RISE AMIDST HIGHER RATES

As focus on the Fed's process of normalization heats up, correlations continue to rise. The 10yr treasury has risen 58 basis points just in the month of April to now a three-year high of 2.83%, and investors in growth and technology have certainly taken note.

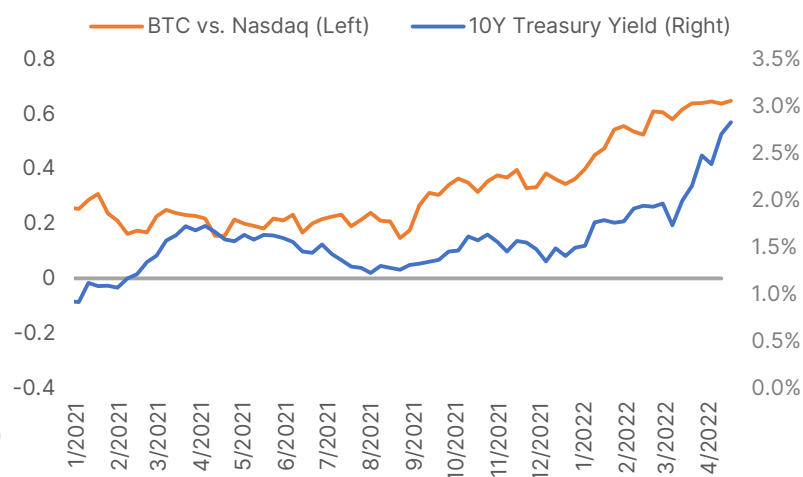
With greater inclusion in traditional, hedge fund, quant, and systematic strategies, the 90D correlation between bitcoin and the Nasdaq has reached all-time-highs of 0.65. Month to date, the tech and growth-heavy Nasdaq has declined 2.8%, while bitcoin has declined 3.5%.

We continue to publish our "tantrum table" on page three to illustrate the lock-step moves of bitcoin, ether, and risk assets in this rapidly changing rate environment.

While rising correlations are not ideal, bitcoin is still a diversifier at a 0.65 correlation, particularly when considering the S&P 500 & the Nasdaq's 90D correlation of 0.96.

90D CORRELATION

Source: Bloomberg, Eaglebrook Advisors



PRICE ACTION UPDATE

As we often point out in our commentary, we believe these levels are attractive for long-term investors, with the year's lows likely put in place in late January around the FOMC meeting. Since then, there have been more than enough headlines to derail the bounce that's occurred (BTC +14.3%, ETH +28.4%), yet bears have had little success in creating a new downtrend. Reasons we believe these levels are attractive opportunities for long-term investors:

- + The risk asset pullback is now almost five months old with much of the decline behind us (crypto weathered the third worst Nasdaq bear market in the last decade)
- + Reduction in uncertainty around regulation and policy given President Biden's executive order as a greenlight
- + No new lows despite bearish headlines, the potential for 50bp increments, an aggressive balance sheet run-off, and concerns over a "hard landing" all serving as bull signal vs. bearish noise
- + Significant uncertainty setting up for a "not all that bad" rally with attractive bitcoin valuations at 1.6x MVRV
- + Rising adoption and a healthy network hash rate
- + Growing investor education and institutional interest
- + Extreme fear in the market as illustrated by the Crypto Fear & Greed Index of 24 on April 18

BITCOIN: PRICE

Source: Bloomberg, Eaglebrook Advisors. As of 4/17/2022.





Joseph Orsini, CFA
Director of Research

KEY MARKET DATA

As of 4/17/2022

Market Capitalization	2018	2019	2020	2021	2022 YTD
Bitcoin Market Cap (mlns)	\$65,307	\$130,517	\$538,811	\$876,370	\$755,318
Ether Market Cap (mlns)	\$13,886	\$14,141	\$84,171	\$433,423	\$354,208
Total Crypto Market Cap (mlns)	\$122,177	\$186,105	\$766,003	\$2,250,184	\$1,858,725
Bitcoin Dominance %	53.5%	70.1%	70.3%	38.9%	40.6%
Ethereum Dominance %	11.4%	7.6%	11.0%	19.3%	19.1%

Source: Glassnode, TradingView, Eaglebrook Advisors

Bitcoin	2018	2019	2020	2021	2022 YTD
Supply (mlns)	17.5	18.1	18.6	18.9	19.0
Market Price	\$3,674	\$7,158	\$28,996	\$46,334	\$40,273
Realized Price	\$4,556	\$5,587	\$9,206	\$24,480	\$24,559
Realized Value (mlns)	\$79,524	\$101,309	\$171,112	\$463,063	\$466,979
Market Value / Realized Value	0.82	1.29	3.15	1.89	1.62
Hash Rate	40.5 EH/S	94.3 EH/S	153 EH/S	179.2 EH/S	230.9 EH/S
Transfer Volume (USD, mlns)	\$2,127,287	\$1,893,560	\$2,327,727	\$13,106,605	\$3,539,384
Avg Daily Transfer Volume (USD, mlns)	\$5,828	\$5,188	\$6,360	\$35,909	\$33,390
Avg Transaction Value (USD)	\$26,518	\$18,073	\$21,266	\$138,824	\$132,852

Source: Glassnode¹, Bloomberg, Eaglebrook Advisors

	Level	WTD%	MTD%	QTD%	YTD%	1 Year%	3 Year%	5 Year%	% off 52Wk High	90D Annualized Vol.
Bitcoin	\$40,273	-6.6%	-3.3%	-13.1%	-13.1%	-33.8%	671.3%	3273.1%	-40.5%	56.6%
Ether	\$3,046	-7.4%	8.0%	-17.4%	-17.4%	27.4%	1728.7%	6216.7%	-36.5%	67.4%
S&P 500	4,393	-2.1%	0.6%	-7.5%	-7.5%	6.4%	59.2%	104.6%	-8.4%	20.1%
Nasdaq Composite	13,351	-2.6%	-2.8%	-14.5%	-14.5%	-4.3%	71.5%	139.4%	-16.9%	29.5%
Bloomberg Barclay's Agg	2,154	-0.7%	-5.5%	-8.5%	-8.5%	-7.6%	2.8%	7.2%	-9.7%	6.2%
Gold	\$1,978	1.6%	3.6%	8.1%	8.1%	11.4%	55.3%	54.0%	-3.5%	14.3%
DXI Index	100.50	0.7%	3.9%	5.0%	5.0%	9.8%	3.6%	0.2%	0.0%	6.5%
WTI Crude	\$107	8.8%	11.7%	38.9%	38.9%	69.4%	67.7%	103.1%	-13.5%	55.6%

Source: Bloomberg, Eaglebrook Advisors

"Tantrum Table"

Asset	High Since 9/30/21	Max Drawdown	Low Date	Rally from Low	YTD Price % Change
ARK Innovation	11/1/2021	-58.2%	3/14/2022	12.8%	-37.6%
Ishares MSCI USA Momentum	11/3/2021	-22.5%	3/8/2022	6.0%	-12.5%
Invesco S&P 500 High Beta	11/8/2021	-17.6%	3/14/2022	4.9%	-9.5%
Ishares Russell 2000 Value	11/8/2021	-14.5%	1/27/2022	4.4%	-4.9%
Ishares Russell 2000 Growth	11/8/2021	-28.5%	3/14/2022	4.8%	-16.3%
Ishares Core U.S. Aggregate	11/9/2021	-9.8%	4/14/2022	0.0%	-8.9%
Bitcoin	11/9/2021	-47.8%	1/23/2022	14.3%	-13.1%
Ether	11/9/2021	-50.8%	1/27/2022	28.4%	-17.4%
Us Breakeven 30 Year	3/14/2022	-0.48	2/18/2022	0.46	0.20
Us Breakeven 10 Year	3/25/2022	-0.61	1/21/2022	0.54	0.32
Us Breakeven 5 Year	3/25/2022	-1.04	12/20/2021	0.76	0.54
Gold Spot \$/Oz	3/8/2022	-6.5%	3/15/2022	3.1%	8.1%
Invesco Nasdaq 100	11/19/2021	-21.2%	3/14/2022	6.4%	-14.9%
S&P 500 Info Tech Index	12/27/2021	-20.3%	3/14/2022	4.0%	-15.7%
S&P 500 Index	1/3/2022	-13.0%	3/8/2022	5.3%	-7.8%

Source: Bloomberg, Eaglebrook Advisors



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DISCLOSURES

¹Realized Price, Source: Glassnode. Realized Price is the Realized Cap divided by the current supply. Realized Capitalization, Source: Glassnode. Realized Cap values different part of the supplies at different prices (instead of using the current daily close). Specifically, it is computed by valuing each UTXO by the price when it was last moved. Market Cap / Realized Cap, Source: Glassnode. Market Value to Realized Value (MVRV) is the ratio between market cap and realized cap. It gives an indication of when the traded price is below a "fair value". Hash Rate, Source: Glassnode: The average estimated number of hashes per second produced by the miners in the network. Total Transfer Volume, Source: Glassnode. Data is change-adjusted, annual sum: The total amount of coins transferred on-chain, adjusted by change volume. Only successful transfers are counted. Avg Daily Transfer Volume, Source: Glassnode. Data is change-adjusted, daily average: The total amount of coins transferred on-chain, adjusted by change volume. Only successful transfers are counted. Avg Transaction Value, Source: Glassnode. The mean value of a transfer, adjusted by change volume. Only successful transfers are counted.

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Economic Risk: The economic risk associated with digital currency is in the lack of widespread or continuing digital currency adoption. The market and investors could decide that digital currency should not be valued at the current market capitalization due to a variety of factors.

Regulatory Risk: Digital currency could be banned or highly regulated by governments that would deter investors from buying or holding digital currency.

Technical Risk: Digital currency is a dynamic network with a codebase that is updated to add new security and functionality features. The updated code that is merged by the core developers could potentially have an error that threatens the security or functionality of the digital currency network.

Cybersecurity Risk: Digital currency exchanges and wallets have been hacked and digital currency has been stolen in the past. This is a potential risk that clients must be comfortable with when investing and holding digital currency. Theft is less likely when holding digital currency at a qualified custodian in offline systems (cold storage) with institutional security and controls.

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