



*Bitcoin and digital assets show relative strength despite equity weakness as volatility trends show significant progress*

## KEY TAKEAWAYS

- + Bitcoin declined alongside the third straight week of equity losses, as markets remain focused on the Fed.
- + Even with risk asset weakness, bitcoin and ether show relative strength. Bitcoin outperformed equities last week (BTC -1.9% vs S&P 500 -2.7%) and has outperformed the Nasdaq on a YTD basis (-14.7% vs. -17.9%). Ether outperformed the Nasdaq last week (-3.4% vs -3.8%) and has slightly underperformed YTD (-20.3%).
- + Bitcoin and ether's volatility continues to improve – we compare against widely held stocks and point out that realized volatility has declined in recent years: institutional investors can now justify larger position sizes.

## THE BIRD'S EYE VIEW

Much of the same occurred last week, with risk assets experiencing another week of volatility on continued concerns over inflation and the ultimate impact of the Federal Reserve's process of normalization. The S&P 500 is now down three weeks in a row and the Nasdaq Composite has again entered bear market territory.

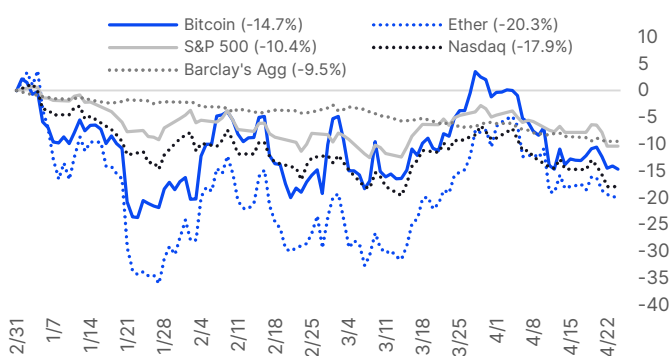
But even so, bitcoin and ether have shown relative strength. Last week, bitcoin declined just -1.9% versus the S&P 500's loss of -2.7% and the Nasdaq Composite's fall of -3.8%. Ether, which is more volatile than bitcoin, declined -3.4%, but still outpaced the Nasdaq.

All things considered, year-to-date performance is also strong: bitcoin is outperforming the Nasdaq (-14.7% vs -17.9%) and bonds, which are known as safe-haven assets, have even declined 9.5% on the year.

So while markets experience losses across both equities and fixed income, the decline in digital assets is understandable. As correlations are high, price action remains in lock step with traditional assets:

### YTD RETURN %

Source: Bloomberg, Eaglebrook Advisors. As of 4/24/2022.

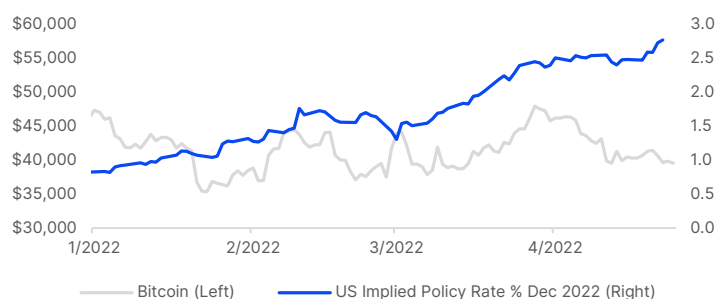


And while broader markets are likely to remain volatile, bitcoin and ether have outperformed off the lows seen earlier this year (tantrum table page 3) and continue to hold around the \$40,000 and \$3,000 levels. This, alongside attractive fundamentals, is just another signal that the two are likely to outperform broader equities when risk assets bounce to the upside.

The market is now pricing in a US policy rate of 2.7% by December, and market participants are calling for a 50bp and even a 75bp increment in the upcoming Fed meeting next week:

### IMPLIED FED FUNDS % DEC'22

Source: Bloomberg, Eaglebrook Advisors. As of 4/24/2022.



Of course, this is a rather aggressive tightening schedule, particularly when comparing to recent hike cycles. As a result, this sets up for a “not all that bad” rally should participants realize the potential for a soft landing. Any reduction in tightening would be bullish for risk assets, particularly crypto, which continues to bounce harder than traditional equities.

This then provides an attractive opportunity for long-term investors. With price action that is macro-specific rather than idiosyncratic, bitcoin and ether are off 41.7% and 38.7% from their 52-week highs, and these assets are certainly “on sale.”

We point out on page two that volatility is rapidly improving – which should provide comfort for investors with hesitations.



## EQUITIES ARE VOLATILE

As bitcoin and ether continue to trade like risk assets, we often compare returns to broader traditional equity indices.

But when looking under the hood, digital asset volatility isn't so bad when compared to some well-known, household stocks. A number of these names have declined more than BTC and ETH on both a year-to-date and 52-week high basis.

Often, volatility is reason for hesitation when investing in digital assets – but really, so are many holdings that are part of traditional portfolios (held outright or through ETFs). The stocks illustrated to the right comprise 8% of the S&P 500.

This is one of many reasons we recommend swapping exposure from equities to digital assets. In doing so, portfolios exchange a risky asset for another risky asset – with correct position sizing, portfolio volatility is lightly impacted, but return asymmetry rises dramatically.

We continue to update our tantrum table on page 3 to illustrate bitcoin and ether versus popular indices, sectors, and ETFs to help investors feel more comfortable with volatility.

	YTD Price Return	% Off 52wk High	90D Ann. Volatility	% in S&P 500 (Total 8.0%)
Netflix Inc	-64.2%	-68.8%	96.1%	0.3%
Paypal Holdings Inc	-54.4%	-72.1%	69.6%	0.3%
Meta Platforms Inc	-45.3%	-51.8%	67.8%	1.2%
Moderna Inc	-44.7%	-71.0%	78.0%	0.1%
Advanced Micro Devices	-38.7%	-45.6%	64.3%	0.4%
Nvidia Corp	-33.6%	-41.5%	64.4%	1.4%
Starbucks Corp	-33.4%	-38.2%	33.4%	0.2%
Salesforce Inc	-32.5%	-44.7%	43.7%	0.5%
General Motors Co	-32.0%	-39.4%	43.2%	0.2%
Sherwin-Williams	-30.5%	-30.5%	28.5%	0.2%
Adobe Inc	-27.9%	-40.6%	47.1%	0.5%
Home Depot Inc	-27.7%	-27.9%	31.4%	0.9%
Blackrock Inc	-27.6%	-31.8%	30.2%	0.3%
State Street Corp	-23.8%	-31.7%	40.8%	0.1%
Lowe's Cos Inc	-23.8%	-24.6%	29.6%	0.4%
Walt Disney Co	-23.6%	-36.4%	31.9%	0.6%
Nike Inc	-22.6%	-27.3%	34.7%	0.4%
Fedex Corp	-20.7%	-35.0%	32.6%	0.1%
<b>Ether</b>	<b>-20.3%</b>	<b>-38.7%</b>	<b>60.3%</b>	
<b>Bitcoin</b>	<b>-14.7%</b>	<b>-41.7%</b>	<b>52.3%</b>	

Source: Bloomberg, Eaglebrook Advisors. Equities are hand-selected from the S&P 500 Index. As of 4/24/2022

## BITCOIN AND ETHER VOLATILITY IMPROVING

Bitcoin and ether's 90D annualized volatility also continues to decline, compared to both its history and relative to equities and even gold. This is likely a result of greater awareness, institutional interest, and portfolio adoption as the assets become more mainstream.

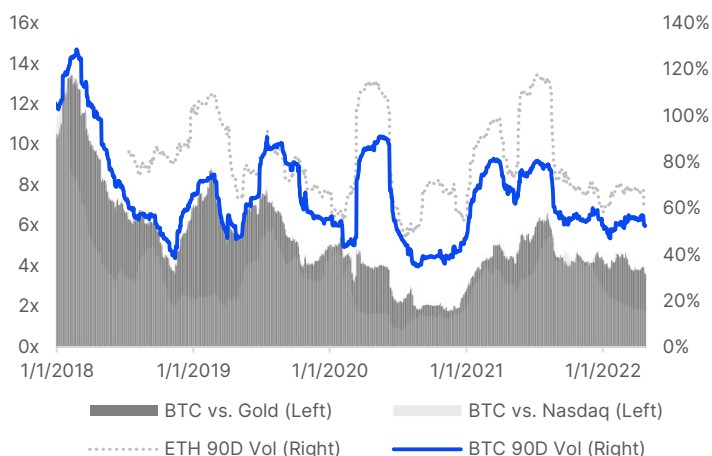
The highest volatility seen in 2018 for bitcoin was nearly 130%, while just 91% in 2019 and 2020, just 81% in 2021, and now, 57% in 2022. In the same period, ether's volatility has declined from around 103% to 70% annualized.

As volatility declines, institutional investors can justify larger position sizes when investing in digital assets: As of now, positions are relatively small – in the low single digits and up – this can certainly grow over the years as investors become more comfortable with price action, drawdowns, and expected volatility.

These are large steps in the right direction.

## ANNUALIZED VOLATILITY

Source: Bloomberg, Eaglebrook Advisors





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## KEY MARKET DATA

As of 4/24/2022

Market Capitalization	2018	2019	2020	2021	2022 YTD
Bitcoin Market Cap (mlns)	\$65,307	\$130,517	\$538,811	\$876,370	\$751,074
Ether Market Cap (mlns)	\$13,886	\$14,141	\$84,171	\$433,423	\$345,911
Total Crypto Market Cap (mlns)	\$122,177	\$186,105	\$766,003	\$2,250,184	\$1,833,589
Bitcoin Dominance %	53.5%	70.1%	70.3%	38.9%	41.0%
Ethereum Dominance %	11.4%	7.6%	11.0%	19.3%	18.9%

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	\$39,516
Realized Price	\$4,556	\$5,587	\$9,206	\$24,480	\$24,593
Realized Value (mlns)	\$79,524	\$101,309	\$171,112	\$463,063	\$467,791
Market Value / Realized Value	0.82	1.29	3.15	1.89	1.61
Hash Rate	40.5 EH/S	94.3 EH/S	153 EH/S	179.2 EH/S	233 EH/S
Transfer Volume (USD, mlns)	\$2,127,287	\$1,893,560	\$2,327,727	\$13,106,605	\$4,076,679
Avg Daily Transfer Volume (USD, mlns)	\$5,828	\$5,188	\$6,360	\$35,909	\$35,760
Avg Transaction Value (USD)	\$26,518	\$18,073	\$21,266	\$138,824	\$142,486

Source: Glassnode<sup>1</sup>, Bloomberg, Eaglebrook Advisors

	Level	WTD%	MTD%	QTD%	YTD%	1 Year%	3 Year%	5 Year%	% off 52Wk High	90D Annualized Vol.
Bitcoin	\$39,516	-1.9%	-13.7%	-13.7%	-14.7%	-22.5%	627.0%	3046.4%	-41.7%	52.3%
Ether	\$2,941	-3.4%	-10.9%	-10.9%	-20.3%	28.1%	1689.2%	5724.1%	-38.7%	60.3%
S&P 500	4,272	-2.7%	-5.6%	-5.6%	-10.0%	3.6%	53.4%	96.8%	-10.9%	20.8%
Nasdaq Composite	12,839	-3.8%	-9.7%	-9.7%	-17.8%	-7.8%	62.7%	125.4%	-20.0%	30.0%
Bloomberg Barclay's Agg	2,132	-1.0%	-3.8%	-3.8%	-9.5%	-8.7%	1.3%	6.2%	-10.7%	6.3%
Gold	\$1,932	-2.4%	-0.3%	-0.3%	5.6%	8.7%	51.4%	51.3%	-5.8%	14.4%
DXI Index	\$101	0.7%	3.0%	3.0%	5.8%	11.4%	3.1%	2.1%	0.0%	6.5%
WTI Crude	\$103	-3.6%	2.8%	2.8%	33.9%	65.8%	56.5%	110.9%	-16.7%	56.4%

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	0.3%	-44.5%
Ishares MSCI USA Momentum	11/3/2021	-22.5%	3/8/2022	2.1%	-15.7%
Invesco S&P 500 High Beta	11/8/2021	-17.6%	3/14/2022	1.0%	-12.9%
Ishares Russell 2000 Value	11/8/2021	-14.5%	1/27/2022	2.2%	-6.9%
Ishares Russell 2000 Growth	11/8/2021	-28.5%	3/14/2022	0.3%	-19.9%
Ishares Core U.S. Aggregate	11/9/2021	-10.7%	4/22/2022	0.0%	-9.8%
Bitcoin	11/9/2021	-47.8%	1/23/2022	12.0%	-14.7%
Ether	11/9/2021	-50.8%	1/27/2022	25.9%	-20.3%
Us Breakeven 30 Year	4/21/2022	-0.56	2/18/2022	0.51	0.25
Us Breakeven 10 Year	4/21/2022	-0.67	1/21/2022	0.62	0.39
Us Breakeven 5 Year	3/25/2022	-1.04	12/20/2021	0.68	0.46
Gold Spot \$/Oz	3/8/2022	-6.5%	3/15/2022	0.7%	5.6%
Invesco Nasdaq 100	11/19/2021	-21.2%	3/14/2022	2.3%	-18.2%
S&P 500 Info Tech Index	12/27/2021	-20.3%	3/14/2022	1.4%	-17.9%
S&P 500 Index	1/3/2022	-13.0%	3/8/2022	2.4%	-10.4%

Source: Bloomberg, Eaglebrook Advisors



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## DISCLOSURES

Realized 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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## Questions? Get in Touch:

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