



While equities reversed a seven-week losing streak, bitcoin and ether underperformed as investors ask “what have you done for me lately?”

KEY TAKEAWAYS

- + Last week, equities broke the seven-week losing streak, while digital assets failed to rally - investors ask the emerging asset class, “what have you done for me lately?”
- + While not to extrapolate too much from one week, potential culprits for the underperformance (BTC -2.5%, ETH -10.5%, S&P 500 +6.6%) likely stem from cold feet headed into the Ethereum merge as some finer technical details need to be hashed out (no pun intended)
- + We provide an update to Ether’s merge in this week’s commentary

THE BIRD'S EYE VIEW

As we enter a holiday-abridged week with the US Memorial Day, we first honor and thank all US Armed Forces, veterans, and particularly those that have sacrificed their lives while serving in the US military.

This week for many officially kicks off “Summer” – when sunshine, watersports, and gathering with friends and family often takes foremost focus. With wandering minds, markets experience light trading volumes, summer Fridays, and “a mind in the sky” for many across Wall Street, Main Street, and everywhere in between.

As we know, the old adage “sell in May and go away” crosses the minds of many - although in actuality, this often fails to prove successful. This year, we have not heard many of those calls, as markets have experienced an extraordinary (and not in the good sense) start to the year.

In this final week of May, US equities as referenced by the S&P 500 broke their seven-week losing streak with a gain of 6.6%. While bitcoin and ether’s correlations to equities remains high, the two failed to rally this week, as participants ask the emerging asset class, “what have you done for me lately?”

While not to extrapolate too much from weekly performance, the likely culprit is uncertainty surrounding the Ether merge. Last week, questions about mining difficulty leading up to the merge came about, as the smart-contract platform prepares for a significant milestone shift to proof-of-stake. We discuss the merge throughout the rest of this weekly.

Otherwise, in macro news - sentiment appears to have already slightly shifted on the margin as the decline in equity prices stalled. Earlier in the week, Fedspeak offered participants the potential for a “pause” late in the year in a reminder that the Fed is data-dependent. Fed minutes again ruled out 75bp increments, and to finish the week, the PCE deflator (the Fed’s preferred measure of inflation) came in at expectations.

Headline PCE was reported at 6.3% y/y, with core at 4.9% y/y, indicating the very real possibility that inflation has peaked.

While never truly out of the water, market pessimism is certainly extreme, which continues to set up for the “not all that bad” rally should concerns prove to be overdone. We briefly discussed some easing of macro-stress last week (US breakevens, DXY, VIX) moving lower, which helps the cause.

While digital asset fundamentals remain strong, this macro-specific pullback offers long-term investors with attractive opportunities to buy on weakness, while others are fearful. We note that cold feet around Ether’s upcoming merge has led to near-term weakness, which is worth monitoring.

A REVIEW OF “THE MERGE”

Since creation, ether has held a “proof-of-work” consensus mechanism, like Bitcoin, which uses miners to validate and confirm transactions for block rewards. While proof-of-work is a perfect mechanism for Bitcoin, a global payment system and digital gold, Ethereum (a platform for the new internet labelled Web3) may find more scalability through proof-of-stake. In short, “stakers” post collateral, vote to approve transactions, and receive rewards for doing so. Key benefits of Ethereum’s merge:

- + ~99% less energy use than proof-of-work, making Ethereum ESG-friendly
- + Improved scalability as transactions are approved without complex equations
- + Reductions in new issuance, as illustrated on pg. 2, and the potential deflationary supply with EIP-1559’s buyback
- + Staked ether (in hot validators) receive staking rewards as a form of cash-flow and income

While the merge introduces some execution risk, the resulting benefit will be a significant improvement to Ethereum.



STAKED ETHER

With proof-of-stake, investors can stake their ether in hot wallets (either in the form of 32ETH or as part of a bigger validator pool) to receive their portion of rewards for voting and validating transactions.

This update to Ethereum is called the “Merge” as it merges with their Beacon Chain, the proof-of-stake Ethereum blockchain.

In preparation of the merge, many investors have already staked their ether. This illustrates both a vote of confidence in the merge as well as an interest in receiving cash flows from doing so.

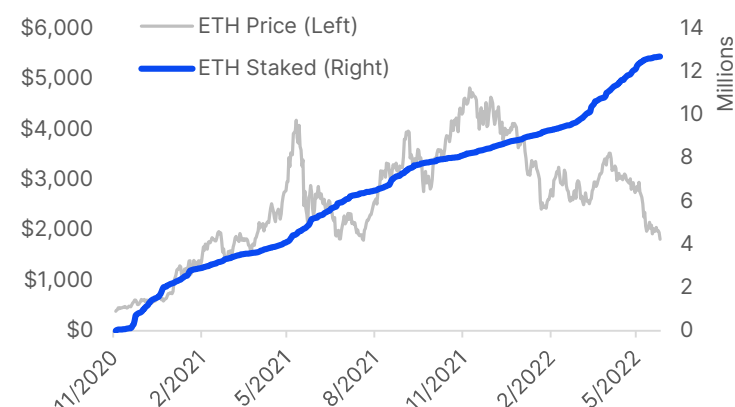
Staked ether for now is “locked,” but will “unlock” when the merge successfully occurs. While this does introduce the potential for increased selling pressure at that time, it’s likely those staking will continue, in order to receive further rewards.

Currently, there are 12.6 million ether staked in preparation of the merge, or ~\$23 billion. This is about 11% of the current Ether supply.

We also illustrate the expected annual issuance rate after the shift to proof-of-stake. This is calculated before EIP-1559’s buyback occurs, which, in a bull market can likely lead to Ether as a deflationary supplied asset. The current annual inflation rate is ~4%.

ETH: STAKED ETHER

Source: Glassnode, Eaglebrook Advisors



ETH validating	Max annual issuance	Max annual network issuance %	Max annual return rate (for validators)
1,000,000	181,019	0.17%	18.10%
3,000,000	313,534	0.30%	10.45%
10,000,000	572,433	0.54%	5.72%
30,000,000	991,483	0.94%	3.30%
100,000,000	1,810,193	1.71%	1.81%

Source: EthHub, Eaglebrook Advisors

UNDERSTANDING ETHER DEMAND

Ethereum is a platform for decentralized applications, in which digital assets in sectors such as NFTs, stablecoins, DeFi, metaverse, and services run on the Ethereum blockchain. Ethereum is the base layer for the new internet labelled “Web3.”

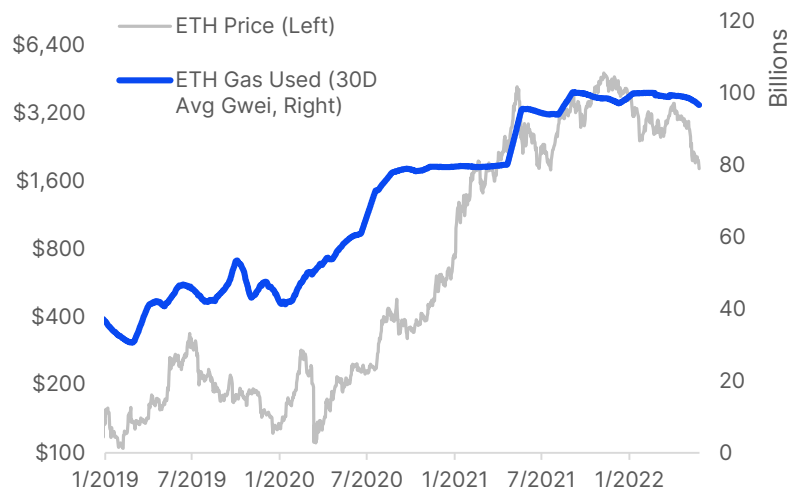
In bull markets, there is high demand for these underlying applications, which in turn, increases the demand for ether (which is needed to pay for transactions on the Ethereum blockchain – denoted in “gas”).

In this bear market, transactions have slowed, as the demand for ether through gas (particularly, DeFi and NFTs that require more than plain vanilla transactions) has recently declined. This removes underlying demand for the ether token itself.

This is why Ether is more levered to the cyclical economy than bitcoin – consumers need to spend on NFTs, be willing to interact with DeFi, utilize stablecoins, and be interested in gaming applications for true underlying demand of ether. While this does not change the long-term thesis for the base layer of the new internet, it is important to monitor and understand. The reduction in issuance following the merge should help stabilize ether when underlying demand takes a pause.

ETH: GAS USED

Source: Glassnode, Eaglebrook Advisors



Stay Tuned,

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KEY MARKET DATA

As of Sunday, 5/29/2022

Market Capitalization	2018	2019	2020	2021	2022 YTD
Bitcoin Market Cap (mlns)	\$65,307	\$130,517	\$538,811	\$876,370	\$560,631
Ether Market Cap (mlns)	\$13,886	\$14,141	\$84,171	\$433,423	\$214,761
Total Crypto Market Cap (mlns)	\$122,177	\$186,105	\$766,003	\$2,250,184	\$1,299,681
Bitcoin Dominance %	53.5%	70.1%	70.3%	38.9%	43.1%
Ethereum Dominance %	11.4%	7.6%	11.0%	19.3%	16.5%

Source: Glassnode, TradingView, Eaglebrook Advisors

Bitcoin	2018	2019	2020	2021	2022 YTD
Supply (mlns)	17.5	18.1	18.6	18.9	19.1
Market Price	\$3,674	\$7,158	\$28,996	\$46,334	\$29,160
Realized Price	\$4,556	\$5,587	\$9,206	\$24,480	\$23,702
Realized Value (mlns)	\$79,524	\$101,309	\$171,112	\$463,063	\$451,595
Market Value / Realized Value	0.82	1.29	3.15	1.89	1.24
Hash Rate	40.5 EH/S	94.3 EH/S	153 EH/S	179.2 EH/S	221.8 EH/S
Transfer Volume (USD, mlns)	\$2,127,287	\$1,893,560	\$2,327,727	\$13,106,605	\$7,042,700
Avg Daily Transfer Volume (USD, mlns)	\$5,828	\$5,188	\$6,360	\$35,909	\$47,266
Avg Transaction Value (USD)	\$26,518	\$18,073	\$21,266	\$138,824	\$183,683

Source: Glassnode¹, Bloomberg, Eaglebrook Advisors

	Level	WTD%	MTD%	QTD%	YTD%	1 Year%	3 Year%	5 Year%	% off 52Wk High	90D Annualized Vol.
Bitcoin	\$29,160	-2.5%	-23.9%	-36.3%	-37.1%	-14.9%	237.3%	1164.2%	-56.9%	51.2%
Ether	\$1,795	-10.5%	-35.7%	-45.6%	-51.3%	-19.8%	565.7%	#DIV/0!	-62.6%	60.5%
S&P 500	4,158	6.6%	0.8%	-8.0%	-12.2%	0.3%	57.1%	88.2%	-13.3%	25.9%
Nasdaq Composite	12,131	6.8%	-1.5%	-14.6%	-22.2%	-11.1%	65.0%	105.0%	-24.5%	36.0%
Bloomberg Barclay's Agg	2,156	0.8%	1.1%	-2.7%	-8.5%	-7.8%	1.0%	6.9%	-9.6%	7.0%
Gold	\$1,854	0.4%	-2.3%	-4.3%	1.3%	-2.6%	44.8%	46.2%	-9.6%	15.4%
DXI Index	\$102	-1.4%	-1.3%	3.4%	6.3%	12.9%	3.6%	4.3%	-3.0%	7.8%
WTI Crude	\$115	1.6%	9.9%	14.7%	49.5%	73.5%	95.7%	131.1%	-7.0%	58.8%

Source: Bloomberg, Eaglebrook Advisors

"Tantrum Table"

Asset	High Since 9/30/21	Max Drawdown	Low Close Date	Rally From Low	YTD Price % Change
ARK Innovation	11/1/2021	-70.5%	5/11/2022	23.0%	-52.0%
Ishares MSCI USA Momentum	11/3/2021	-29.3%	5/20/2022	8.0%	-18.6%
Invesco S&P 500 High Beta	11/8/2021	-25.1%	5/11/2022	11.0%	-13.0%
Ishares Russell 2000 Value	11/8/2021	-20.5%	5/11/2022	9.0%	-7.7%
Ishares Russell 2000 Growth	11/8/2021	-38.5%	5/11/2022	11.1%	-23.7%
Ishares Core U.S. Aggregate	11/9/2021	-11.9%	5/6/2022	2.5%	-8.7%
Bitcoin	11/9/2021	-58.1%	5/11/2022	2.7%	-37.1%
Ether	11/9/2021	-63.7%	5/27/2022	3.0%	-51.3%
Us Breakeven 30 Year	4/21/2022	-0.56	2/18/2022	0.27	0.01
Us Breakeven 10 Year	4/21/2022	-0.47	5/25/2022	0.10	0.06
Us Breakeven 5 Year	3/25/2022	-0.85	5/24/2022	0.11	0.09
Gold Spot \$/Oz	3/8/2022	-11.7%	5/13/2022	2.3%	1.3%
Nasdaq Composite	11/19/2021	-29.8%	5/24/2022	7.7%	-22.5%
S&P 500 Info Tech Index	12/27/2021	-26.5%	5/19/2022	8.2%	-19.2%
S&P 500 Index	1/3/2022	-18.7%	5/19/2022	6.6%	-12.8%

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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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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BGN, Bloomberg Generic Price: A real-time composite based on quotes from multiple contributors that provides a market indication of where assets are priced. BGN uses both executable and indicative pricing, depending on the type of quotes available in the marketplace at the time of pricing. This methodology is used for bitcoin and ether.

The S&P 500 Index is an unmanaged value-weighted index of 500 common stocks that is generally considered representative of the U.S. stock market.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The ICE U.S. Dollar Index is a geometrically-averaged calculation of six currencies weighted against the U.S. dollar.

The Gold Spot price is quoted as US Dollars per Troy Ounce.

Bloomberg's spot crude oil price indications use benchmark WTI crude at Cushing, OK ; and other U.S. crude oil grades trade on a price spread differential to WTI, Cushing.

The Volatility Index (VIX) shows the market's expectations of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX is a widely used measure of market risk.

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