EAGLEBROOK ADVISORS

Awaiting

December 13th, 2022

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Digital asset participants await positive catalysts to arrive as the year comes to an end; markets remain at a standstill with bitcoin around $17,000 and ether around $1,250

Key Takeaways

+ Another quiet week with little contagion or catalyst news flow; bitcoin was flat while ether declined 0.9% by Sunday's close

+ The broader market now awaits the November CPI report and the Federal Reserve's December announcement, with the expected 50 basis points to come on Wednesday, a decline from the recent historically large 75 basis point hikes

+ While this year has been a tough year of monetary tightening, we illustrate bitcoin's performance versus the ebbs and flows of monetary policy and money supply

Another quiet week for digital assets and a tight range of performance, with bitcoin returning a flat 0.0% while ether declined a marginal -0.9%.

These tight ranges for bitcoin and ether come even as the S&P 500 posted its "worst" week since late September with a loss of -3.4% by week-end. The flagship equity index rallied from a closing October low of 3,577 to a November high of 4,080 but has since pulled back from its 200D moving average and ahead of key economic data this week.

Within digital assets, the focus remains on contagion risk – and any forced selling this may bring. But one month after the FTX bankruptcy filing, not much unexpected news has hit the tape, and as a result, markets have yet to see another leg lower.

Bitcoin, by the end of the week, traded just 3.7% below it's June low, while ether remains 40.1% above the capitulatory lows that occurred six months ago.

So even as equities pulled back, digital assets were unaffected by such performance. Given the events that have unfolded this year, it's possible that those that plan to sell, already have. If it's not because the fastest pace of tightening since 1981 or the collapses of major crypto institutions, what else would they be waiting for?

And this is likely why there hasn't been much follow-through to the downside since the initial FTX news. Last week we discussed the historic on-chain losses for bitcoin investors as a percentage of market capitalization – approximately 5.3%. This, alongside the realized losses of 5.7% of bitcoin's market cap that occurred in June highlight the selling that has already taken place this year. It's likely something big would have to occur for another capitulatory move lower.

But, if no news is good news as we said last week– what can bring digital assets back?

To us, no more bad news is likely enough good news for now. Sentiment is sour, broader confidence has weaned, and many are expecting more negative news. But fear of negative news doesn't necessarily mean this type of news arrives.

And if equities continue their rally higher, eventually, a relative trade into bitcoin and digital assets should occur, particularly as the group remains significantly off their highs. Of course, improving sentiment around risk assets would benefit digital assets as well.

This week's November CPI report, while unlikely to change the Fed's expected 50 basis point rate hike, may impact the tone of Chair Powell through his Q&A session. Should inflation continue to illustrate its slow-but-steady decline lower, markets may certainly rally on a better-than-expected macro environment.

We've already seen a significant and beneficial pullback in the two largest overhangs to risk assets – the stampede higher in both the dollar and yields. These moves, alongside the rally in gold (8.3% in November), suggest that the Fed is closer to the end of its tightening cycle than the beginning.

And of course, this is likely the case. With the current Federal Funds Upper Bound Target at 4% and a peak 5% expectation, Wednesday's likely 50 basis point rate hike brings the market ever-so-closer to the end of this historically large tightening schedule.

Given the significant headwinds this path of normalization has created for risk assets, market participants certainly await the eventual peak in Fed policy and hawkishness. We look forward to what this likely means for digital assets in the months ahead.

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Monetary Policy Becoming More Certain

As we often discuss, the rapidly changing expectations of the Federal Reserve's process of normalization has been a large headwind to risk assets for nearly all of the 2022 year.

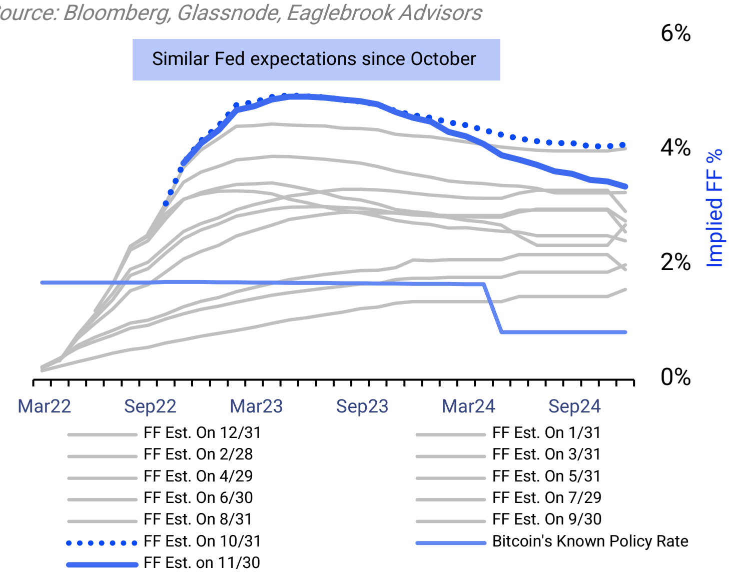
Nearly every month of this year has had tightening expectations jolt higher, causing significant uncertainty around where Fed policy may land. As we believe, this uncertainty is more meaningful to market pricing than the level thereof, as it hinders corporate and investor ability to plan for the future.

But recently, and particularly since October, market expectations have remained largely the same for 2023, supporting the equity rally we've seen in recent weeks. Expectations for cuts in 2024 have also ticked up.

If Wednesday's FOMC meeting leaves market expectations for Fed policy relatively unchanged (or even with a bias lower), the slow-but-steady resurgence of risk appetite may continue – again, likely supporting digital assets.

FED POLICY EXPECTATIONS

Source: Bloomberg, Glassnode, Eaglebrook Advisors



Bitcoin and Global Money Supply

For those looking for a positive catalyst, we point out bitcoin's response to the ebbs and flows of global money supply. As we see, bitcoin often declines through monetary tightening but benefits from monetary easing.

We can see this interaction between the growth of global money supply and the performance of bitcoin in the chart to the right.

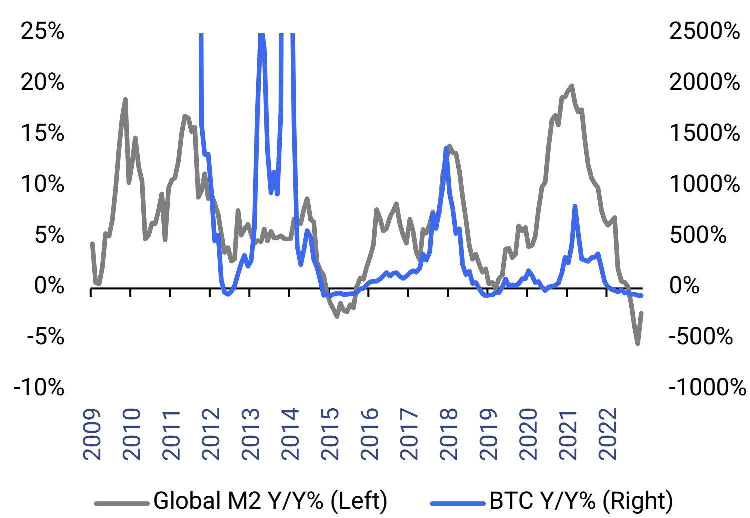
When viewed in this manner, we understand that this year's bitcoin performance fits within the realm of monetary tightening. But as we know, such cycles occur, and ultimately, tightening lends itself to easing.

Similar to the easing cycles in the past - this should benefit digital assets.

With the Fed nearing its peak terminal rate and other central banks beginning to show signs of dovishness, this easing cycle (or even, less tightening) may be closer than many imagine. Global money supply has already begun to tick higher, even without yet the Federal Reserve's "pivot."

Y/Y%: BITCOIN VS. M2

Source: Bloomberg, Eaglebrook Advisors. As of 11/30/22.



Stay Tuned,
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Key Market Data

As of Sunday, 12/11/2022

Market Capitalization	2018	2019	2020	2021	2022 YTD
Bitcoin Market Cap (mlns)	$65,307	$130,517	$538,811	$876,370	$328,909
Ether Market Cap (mlns)	$13,886	$14,141	$84,171	$433,423	$152,354
Total Crypto Market Cap (mlns)	$122,177	$186,105	$766,003	$2,250,184	$807,269
Bitcoin Dominance %	53.5%	70.1%	70.3%	38.9%	40.7%
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	19.2
Market Price	$3,674	$7,158	$28,996	$46,334	$17,115
Realized Price	$4,556	$5,587	$9,206	$24,480	$20,026
Realized Value (mlns)	$79,524	$101,309	$171,112	$463,063	$385,116
Market Value / Realized Value	0.82	1.29	3.15	1.89	0.85
Hash Rate	40.5 EH/S	94.3 EH/S	153 EH/S	179.2 EH/S	249.3 EH/S
Transfer Volume (USD, mlns)	$2,127,287	$1,893,560	$2,327,727	$13,106,605	$14,792,365
Avg Daily Transfer Volume (USD, mlns)	$5,828	$5,188	$6,360	$35,909	$42,876
Avg Transaction Value (USD)	$26,518	$18,073	$21,266	$138,824	$167,689

Source: Glassnode[1], Bloomberg, Eaglebrook Advisors

	Level	Week %	MTD%	QTD%	YTD%	1 Year%	3 Year%	5 Year%	% off 52Wk High	90D Annualized Vol.
Bitcoin	$17,115	0.0%	0.1%	-11.9%	-63.1%	-64.9%	138.0%	-0.2%	-66.4%	49.1%
Ether	$1,265	-0.9%	-2.4%	-5.0%	-65.7%	-68.6%	784.5%	146.3%	-69.3%	68.2%
S&P 500	3,934	-3.4%	-3.5%	10.1%	-16.2%	-15.2%	31.4%	61.4%	-18.0%	25.1%
Nasdaq Composite	11,005	-4.0%	-4.0%	4.3%	-29.1%	-29.0%	30.4%	67.8%	-30.7%	31.0%
Bloomberg Barclays Agg	2,076	-0.4%	0.9%	3.2%	-11.8%	-11.7%	-6.8%	1.7%	-12.0%	8.7%
Gold Spot $/Oz	$1,797	0.0%	1.6%	8.2%	-1.7%	0.8%	21.9%	44.7%	-12.4%	15.7%
DXY Index	$104.8	0.3%	-1.1%	-6.5%	9.6%	9.1%	8.0%	11.7%	-8.1%	11.7%
WTI Crude	$71.0	-11.2%	-11.8%	-10.7%	-7.8%	-0.9%	20.9%	22.5%	-42.6%	42.2%

Source: Bloomberg, Eaglebrook Advisors

"Tantrum Table"	High Since 9/30/21	Max Drawdown	Low Close Date	Rally From Low	YTD Price % Change
ARK Innovation	11/1/2021	-74.0%	11/9/2022	6.4%	-63.4%
Ishares MSCI USA Momentum	11/3/2021	-32.8%	6/17/2022	12.6%	-19.3%
Invesco S&P 500 High Beta	11/8/2021	-32.0%	10/14/2022	16.1%	-17.4%
Ishares Russell 2000 Value	11/8/2021	-27.1%	9/30/2022	10.7%	-14.0%
Ishares Russell 2000 Growth	11/8/2021	-40.7%	6/16/2022	12.5%	-25.4%
Barclays US Aggregate Index	11/9/2021	-17.4%	10/24/2022	6.0%	-11.8%
Bitcoin	11/9/2021	-76.9%	11/21/2022	9.5%	-63.1%
Ether	11/9/2021	-81.2%	6/18/2022	40.1%	-65.7%
Us Breakeven 30 Year	4/21/2022	-0.59	9/30/2022	0.24	-0.05
Us Breakeven 10 Year	4/21/2022	-0.88	9/30/2022	0.12	-0.32
Us Breakeven 5 Year	3/25/2022	-1.57	9/30/2022	0.21	-0.54
Us Breakeven 2 Year	3/25/2022	-2.95	9/30/2022	0.37	-0.86
Gold Spot $/Oz	3/8/2022	-20.9%	9/26/2022	10.8%	-1.7%
Nasdaq Composite Index	11/19/2021	-35.7%	10/14/2022	6.6%	-29.7%
S&P 500 Info Tech Index	12/27/2021	-34.3%	10/12/2022	11.7%	-25.3%
S&P 500 Index	1/3/2022	-25.4%	10/12/2022	10.0%	-17.5%

Source: Bloomberg, Eaglebrook Advisors

Disclosures

[1]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.

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Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). 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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The index is designed for investors initiating a bullish strategy or making a directional bet. The Fund is rebalanced quarterly. . iShares Russell 2000 Value ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the Russell 2000 Value index and holds small cap US equities focused on low price to book ratios and lower forecasted growth. Its investments are primarily focused in the consumer discretionary, financial and industrial sectors. The ETF uses a representative sampling approach. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978. 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The index was developed with a base level of 10 for the 1941-43 base period.

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