

Close

December 20th, 2022



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An FOMC meeting to close out the year is certainly fitting for 2022; digital asset market participants look forward to 2023 after a historically tough year for risk assets

Key Takeaways

- + Last week's rally fizzled after a better-than-expected CPI report and the Fed's December meeting; bitcoin and ether declined 2.1% and 6.5% respectively, while the S&P 500 fell 2.1% as well
- + While the Fed's 50 basis point rate hike brings an upper bound of 4.5%, a higher projection for next year startled risk assets, despite bond markets not taking the bait
- + We recap the macro and crypto storms that occurred this year and highlight the resilient growth in active users of both bitcoin and Ethereum

Last week's focus on both CPI and the Federal Reserve's December meeting was certainly fitting to close out a year dominated by inflation uncertainty and the Federal Reserve's process of normalization.

While the November CPI report came in better than expected and the FOMC hiked the market's estimate of 50 basis points, the focus remained on the "higher for longer" narrative the Fed has put in place in recent months.

Particularly, the median projection of policy rates, or the "dots", moved up from 4.6% to now 5.1% by the end of 2023. This signal by the Fed has again tried to curb the idea of the "Fed pivot", despite the market's estimates for cuts next year.

This "news", alongside the usual concerns over the potential for a hard landing, led to a pullback from the weekly highs. Bitcoin, after reaching a high of \$18,365 on Wednesday closed at \$16,753 by the end of the week, while ether closed at \$1,182 from a high of \$1,350. The S&P 500 rolled over from 4,100 to close at 3,852.

Interestingly, market pricing did not react to the Fed's "updated" projections (the dots are published quarterly and compare to the Sep 21st meeting). Fed Fund futures still place a 4.5% expectation for the end of 2023, indicating around two cuts. This has remained relatively the same since mid-September.

But whether the Fed reaches this 5.25% upper bound projection or meets the market-based estimate of 5.0%, a current 4.5% level means there may be very few hikes left in the tank. The next conversation will be a matter of how long the Fed can stay at this terminal rate before cutting.

As we head into the turn of the year, 2022 is certainly one that many are glad is now behind us.

Some major events that have occurred this year, explaining much (if not all) of the digital asset decline:

- The Fed tightened at its fastest pace since 1980, hiking interest rates by a magnitude of 4.25%
- Treasury yields nearly tripled and have now doubled in just twelve months (10yr from ~1.5% to ~3.5% with a high of ~4.24% / 2yr from 0.76% to 4.18% with a high of 4.7%)
- Barclay's Agg is having its worst year on record, down 11%
- The S&P 500 had its fourth worst YTD performance by the end of Q3, and many growth companies in the Nasdaq have declined over 50%
- The DXY Index gained as much as 19.3% from the start of the year and is still up over 9%
- Two large crypto hedge funds liquidated, a top smart contract platform and stablecoin failed, three major savings/landings firms collapsed, and the second-largest crypto exchange might have been fraudulent for many years

Now, bitcoin is headed for its third-ever annual decline, alongside 2014 and 2018. Similarly, skepticism has risen, and questions of viability have returned.

But similar to cycles in the past, bitcoin and ether stick around, awareness rises, and ultimately, adoption continues because of the underlying technologies. Following each past drawdown, bitcoin and ether rise from the ashes in the face of uncertainty.

We look forward to providing commentary throughout 2023 and hope we've helped our readers navigate this historically difficult market environment. On page two, we discuss continued activity on bitcoin and ether and highlight annual returns after down years – patience is often rewarded.

We wish our readers a safe and happy holiday season.


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Continued Activity Despite Price Weakness

We often discuss that underlying fundamentals have improved despite another crypto drawdown, highlighting indicators such as holding trends, transfer volume, and Ethereum’s improved Tokenomics.

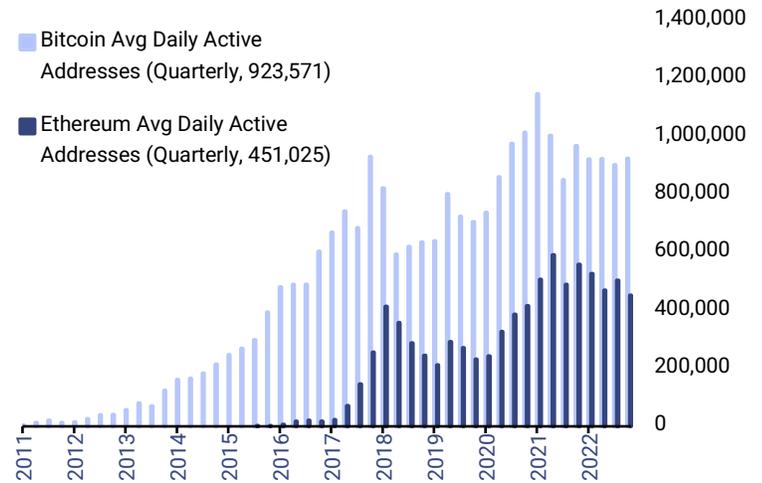
When considering daily active addresses using both bitcoin and Ethereum, we can see resilient activity taking place despite the bear market in price.

In fact, while bitcoin is down 63.8% YTD, active addresses are down just 4.5% when compared to Q4 2021. Active Ethereum addresses, which we often note is more cyclical due to most of the use in DeFi, NFTs, gaming, and services, are down just 19.1% year-to-date compared to 67.9% decline in price.

This simple indication of daily active addresses highlights the continued growth of underlying adoption taking place despite price weakness – there is both a need and interest to use these technologies, even with a drawdown.

ACTIVE ADDRESSES

Source: Glassnode, Eaglebrook Advisors. Data is Quarterly Average.



Annual Returns After Down Years

This 2022 year certainly reminds investors that price does not rise in a straight line, which often tests the conviction of long-term investors.

As we know, markets fluctuate – macro environments change, cycles occur, and risk assets often respond accordingly.

While it’s not unusual to face a “down year”, it’s important to remember that markets also climb a wall of worry. Near-term risks take much of the focus over long-term opportunities. There are always reasons not to invest.

But history also illustrates that those that remain patient are often the most rewarded: bad years often give way to good ones, and historically speaking, markets rise more often than not.

In the two down years of bitcoin’s history, bitcoin declined -57.5% to \$317 in 2014 and -73.8% to \$3,674 in 2018, only to rally for three straight years following.

In this regard, a rally after a down year is certainly not impossible.

Stay Tuned,

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As of 12/18/2022			
	S&P 500	Bitcoin	Ether
2023	?	?	?
2022 YTD	-17.9%	-63.8%	-67.9%
2021	28.7%	59.8%	399.1%
2020	18.4%	305.1%	475.5%
2019	31.5%	94.8%	-1.2%
2018	-4.4%	-73.8%	-81.9%
2017	21.8%	1375.1%	8799.2%
2016	12.0%	120.3%	788.3%
2015	1.4%	36.2%	
2014	13.7%	-57.5%	
2013	32.4%	5428.4%	
2012	16.0%	217.9%	
2011	2.1%	1316.7%	
2010	15.1%		
2009	26.5%		
2008	-37.0%		
2007	5.5%		
2006	15.8%		
2005	4.9%		
2004	10.9%		
2003	28.7%		
2002	-22.1%		
2001	-11.9%		
2000	-9.1%		

Source: Bloomberg, Glassnode, Eaglebrook Advisor. S&P 500 Data uses total return. Bitcoin and ether data use Bloomberg Generic Pricing except for 2016-2018 for ether, which uses Glassnode.

Key Market Data

As of Sunday, 12/18/2022

Market Capitalization	2018	2019	2020	2021	2022 YTD
Bitcoin Market Cap (mlns)	\$65,307	\$130,517	\$538,811	\$876,370	\$322,765
Ether Market Cap (mlns)	\$13,886	\$14,141	\$84,182	\$434,897	\$143,121
Total Crypto Market Cap (mlns)	\$122,177	\$186,105	\$766,003	\$2,250,184	\$752,563
Bitcoin Dominance %	53.5%	70.1%	70.3%	38.9%	42.9%
Ethereum Dominance %	11.4%	7.6%	11.0%	19.3%	19.0%

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	\$16,753
Realized Price	\$4,556	\$5,587	\$9,206	\$24,480	\$19,966
Realized Value (mlns)	\$79,524	\$101,309	\$171,112	\$463,063	\$384,091
Market Value / Realized Value	0.82	1.29	3.15	1.89	0.84
Hash Rate	40.5 EH/S	94.3 EH/S	153 EH/S	179.2 EH/S	246.5 EH/S
Transfer Volume (USD, mlns)	\$2,127,287	\$1,893,560	\$2,327,727	\$13,106,605	\$14,836,995
Avg Daily Transfer Volume (USD, mlns)	\$5,828	\$5,188	\$6,360	\$35,909	\$42,151
Avg Transaction Value (USD)	\$26,518	\$18,073	\$21,266	\$138,824	\$164,835

Source: Glassnode¹, Bloomberg, Eaglebrook Advisors

	Level	Week %	MTD%	QTD%	YTD%	1 Year%	3 Year%	5 Year%	% off 52Wk High	90D Annualized Vol.
Bitcoin	\$16,753	-2.1%	-2.1%	-13.8%	-63.8%	-64.3%	134.9%	-10.3%	-67.1%	49.5%
Ether	\$1,183	-6.5%	-8.8%	-11.2%	-67.9%	-70.3%	803.9%	50.2%	-71.3%	67.2%
S&P 500	3,852	-2.1%	-5.5%	7.9%	-17.9%	-15.3%	26.7%	56.3%	-19.7%	25.4%
Nasdaq Composite	10,705	-2.7%	-6.6%	1.5%	-31.0%	-28.8%	24.4%	60.5%	-32.5%	31.1%
Bloomberg Barclays Agg	2,093	0.8%	1.7%	4.1%	-11.1%	-11.3%	-5.7%	2.4%	-11.2%	8.6%
Gold Spot \$/Oz	\$1,793	-0.2%	1.4%	8.0%	-2.0%	-0.3%	21.5%	42.1%	-12.6%	16.2%
DXY Index	\$104.7	-0.1%	-1.2%	-6.6%	9.4%	8.4%	7.5%	11.7%	-8.2%	11.7%
WTI Crude	\$74.3	4.6%	-7.8%	-6.5%	-3.5%	4.8%	21.9%	30.0%	-39.9%	42.8%

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	2.1%	-64.8%
Ishares MSCI USA Momentum	11/3/2021	-32.8%	6/17/2022	10.8%	-20.6%
Invesco S&P 500 High Beta	11/8/2021	-32.0%	10/14/2022	13.3%	-19.4%
Ishares Russell 2000 Value	11/8/2021	-27.1%	9/30/2022	7.3%	-16.7%
Ishares Russell 2000 Growth	11/8/2021	-40.7%	6/16/2022	10.8%	-26.6%
Barclays US Aggregate Index	11/9/2021	-17.4%	10/24/2022	6.8%	-11.1%
Bitcoin	11/9/2021	-76.9%	11/21/2022	7.2%	-63.8%
Ether	11/9/2021	-81.2%	6/18/2022	31.0%	-67.9%
Us Breakeven 30 Year	4/21/2022	-0.59	9/30/2022	0.08	-0.21
Us Breakeven 10 Year	4/21/2022	-0.91	12/16/2022	0.00	-0.46
Us Breakeven 5 Year	3/25/2022	-1.57	9/30/2022	0.03	-0.72
Us Breakeven 2 Year	3/25/2022	-2.95	9/30/2022	0.14	-1.10
Gold Spot \$/Oz	3/8/2022	-20.9%	9/26/2022	10.5%	-2.0%
Nasdaq Composite Index	11/19/2021	-35.7%	10/14/2022	3.7%	-31.6%
S&P 500 Info Tech Index	12/27/2021	-34.3%	10/12/2022	8.7%	-27.3%
S&P 500 Index	1/3/2022	-25.4%	10/12/2022	7.7%	-19.2%

Source: Bloomberg, Eaglebrook Advisors

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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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.

The indexes presented are unmanaged portfolios of specified securities and the performance shown is gross of fees which do not reflect any initial or ongoing expenses. Indexes cannot be invested in directly. Returns for digital assets may differ significantly from the returns of indexes which hold securities. Returns are for the time periods shown.

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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 Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. 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. ARK Innovation ETF is an actively managed exchange-traded fund incorporated in the USA. The Fund will invest in equity securities of companies relevant to the theme of disruptive innovation. Relevant themes are those that rely on or benefit from the development of new products or services in scientific research relating to Genomics Revolution, Web x.0, and Industrial Innovation. iShares MSCI USA Momentum Factor ETF is an exchange traded fund incorporated in the USA. The Fund seeks to track the performance of an index that measures the performance of U.S. large and mid capitalization stocks exhibiting relatively higher momentum characteristics, before fees and expenses. Invesco S&P 500 High Beta ETF is an exchange-traded fund incorporated in the USA. The Fund tracks the S&P500 High Beta Index which consists of the 100 stocks from the S&P500 with the highest sensitivity to market movements, or beta, over the past year. 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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