

Bitcoin Brief

MARKET UPDATE

January was a challenging month for most risk assets, including bitcoin, which ended the month down 16.1%. Bitcoin is up 11.2% over the trailing 12-month period and 124% per annum over the last 3 years.

In equity markets, the S&P 500 returned -5.2%, its biggest monthly drop since the pandemic took hold in March '20, and growth stocks reached correction territory after touching an all-time high in November '21. Yields have soared on the prospect that the Federal Reserve will likely deliver multiple rate hikes this year and reduce bond purchases.

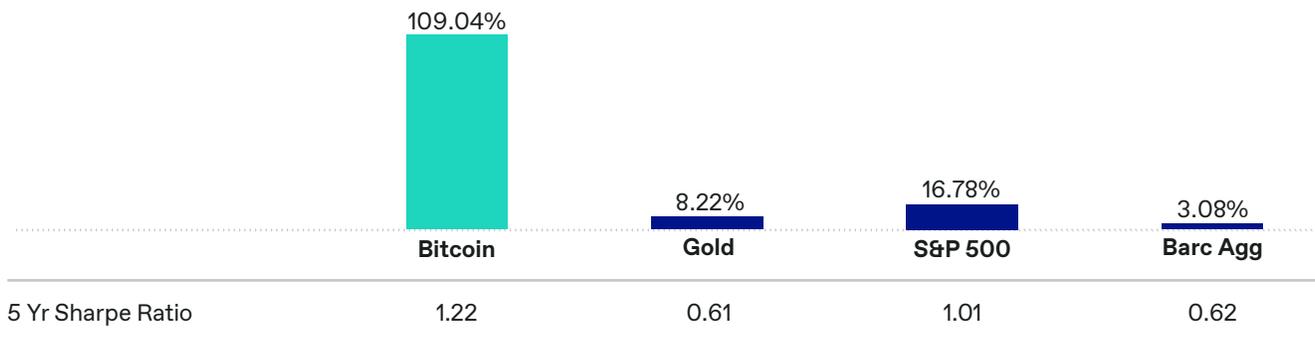
Given the absence of any materially negative, crypto-specific catalysts, it appears the bitcoin sell-off was mostly attributable to macro factors. Bitcoin has historically been uncorrelated to other asset classes such as equities. However, correlations to equities have increased since the start of the COVID-crisis, with bitcoin's rolling 90-day correlation to U.S. equities ranging roughly between 0.2 and 0.5. In recent weeks, correlations have hit the top of that range as equities have sold off.

Drawdown in Perspective

The current bitcoin drawdown, or peak-to-trough decline in price, is the 6th worst in bitcoin's history and of a similar magnitude to what occurred in the spring of '21. While past performance is not indicative of future results, it took about 6 months for bitcoin's price to recover following the spring sell-off, shorter than some of the more severe drawdowns seen in the past.

Recent drawdowns might have been less severe and shorter in duration given the growth of bitcoin's institutional investor base.

5 Year Annualized Return



HIGHLIGHTS.

- BTC drawdown in perspective
- GBTC discount hits record
- Bitcoin surpasses AMEX in annual transaction volume

MARKET STATS.

As of 1/31/22

BTC Price	\$38,480
BTC Market Cap	\$712B
% of BTC Total Supply in Circulation	90%
3M Average Daily Bitcoin Transactions	~263K

NOTEWORTHY HEADLINES.

[NYDIG Unveils Bitcoin Savings Plan for Employee Benefit Programs](#)

[Grayscale Bitcoin Trust Trading at Record Discount](#)

[Gensler: Crypto Exchanges Will Face More Scrutiny from SEC](#)

[Bitcoin Can Reach \\$100K in 'Hypothetical' Store of Value Boost, Goldman Sachs Says](#)

[Crypto Security Is Biggest Concern for Institutional Investors](#)

When the market went pear-shaped prior to 2021, retail investors may have caused continued downward pressure on price since they historically do not have the staying power of institutional investors. Bitcoin ownership is much more diversified by investor type today; in fact, one survey indicates that over half of institutional investors in Asia, Europe, and the U.S. currently invest in digital assets.¹ Institutional investors may be a stabilizing factor in bitcoin markets.

In contrast to the spring '21 sell-off, however, the current drop has been quite orderly. The drawdown occurred during a period of relatively low price volatility for bitcoin - current levels are lower today than throughout much of 2021. In addition, bitcoin volumes spiked during the spring '21 sell-off but didn't noticeably change during this latest drawdown.

Bitcoin's Worst Drawdowns

Drawdown	Peak		Trough		Drawdown		Recovery ²	
	Date	Price	Date	Price	Loss	Duration (Days)	Date	Duration (Days)
1	6/8/11	\$31.91	11/18/11	\$2.00	-93.7%	163	2/28/13	631
2	11/29/13	\$1,242.00	1/14/15	\$152.40	-87.7%	411	3/2/17	1,189
3	12/17/17	\$19,891.99	12/15/18	\$3,128.89	-84.3%	363	12/1/20	1,080
4	4/10/13	\$266.00	4/16/13	\$50.01	-81.2%	6	11/6/13	210
5	4/14/21	\$64,899.00	6/22/21	\$28,800.00	-55.6%	69	10/20/21	189
6	11/10/21	\$69,000.00	1/24/22	\$32,933.33	-52.3%	75		
7	11/19/13	\$900.98	11/20/13	\$453.29	-49.7%	1	11/26/13	7
8	2/10/11	\$1.10	4/4/11	\$0.56	-48.9%	53	4/17/11	66
9	6/12/17	\$2,999.99	7/16/17	\$1,758.20	-41.4%	34	8/5/17	54
10	9/2/17	\$4,980.00	9/15/17	\$2,975.01	-40.3%	13	10/12/17	40

Source: TradingView, Mt. Gox

GBTC Discount Hits Record

Investors in the world's largest bitcoin fund, the \$28B³ Grayscale Bitcoin Trust (GBTC), were among the hardest hit during the latest drawdown. GBTC's market price reached a record discount to its net asset value (NAV) on January 21st. At one point, the shares traded nearly 30% below the underlying bitcoin held within the trust. As an over-the-counter grantor trust, GBTC is typically purchased by investors at a market price determined by supply and demand dynamics in the secondary market. Moreover, the fund doesn't operate a redemption program that is needed to minimize the difference between market price and NAV.

Historically, GBTC has traded at a significant premium to NAV, surpassing 100% in 2017. However, with the introduction of spot bitcoin ETFs in Canada and other access vehicles globally, the premium flipped to a discount in early 2021. For example, an investor who purchased GBTC at bitcoin's cycle peak on December 18, 2017, and then sold on January 21, 2022, when GBTC was trading nearly 30% below fair value, would have had -33% performance. Conversely, an investor in spot bitcoin would have had +102% performance over that same period. GBTC represents an inefficient way to gain bitcoin exposure.

Bitcoin Surpasses Amex in Annual Transaction Volume⁴

Bitcoin's use as a payments network is larger and growing faster than some investors may realize. Many think of bitcoin primarily as an asset (e.g., "digital gold"), however its raison d'être was to reinvent payments. In fact, Satoshi Nakamoto, Bitcoin's pseudonymous creator(s), released a seminal paper titled, "Bitcoin: A Peer-to-Peer Electronic Cash System." Thirteen years later, bitcoin is estimated to have processed \$3T worth of payments in 2021, well ahead of American Express (\$1.3T) and Discover (\$0.5T), two brands whose credit cards have been around for 64 and 37 years, respectively. Bitcoin is still in the early innings as a superior payment technology. Even with an estimated 99% CAGR for transaction volumes over the last five years through year-end, the network has a significant way to go before catching up with the volume of transactions processed on Visa and Mastercard. Nonetheless, continued adoption of bitcoin and the Lightning Network, a layer 2 application enabling the frictionless transfer of the asset, present profound opportunities for payments and, in turn, the global economy.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	-16.11%	-38.49%	-16.11%	11.21%	123.99%	109.04%
Gold	-1.75%	0.77%	-1.75%	-2.73%	10.80%	8.22%
S&P 500	-5.17%	-1.61%	-5.17%	23.29%	20.71%	16.78%
Barclays Agg	-2.15%	-2.12%	-2.15%	-2.97%	3.67%	3.08%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	92.0%	1.22	-
Gold	12.5%	0.61	0.13
S&P 500	15.7%	1.01	0.27
Barclays Agg	3.3%	0.62	0.19

Sources:

NYDIG, Bloomberg as of 1/31/22, unless noted otherwise. All prices are 4:00 pm ET prices on the last business day of each month. Barclays Agg represents the Bloomberg US Aggregate Total Return Bond Index. Bitcoin returns based on month-end 4pm prices. Monthly bitcoin prices prior to October 2018 are based on Coinbase 4pm pricing. In October 2018, NYDIG began generating bitcoin prices in accordance with NYDIG Asset Management's valuation policy for its bitcoin funds. The monthly bitcoin prices used after October 2018 reflect 4pm prices determined in accordance with such valuation policy, which is the same valuation policy that is used for NYDIG's funds. As there are two different pricing sources for bitcoin reflected, the historical performance of bitcoin shown may be different if the bitcoin prices in accordance with NYDIG Asset Management's valuation policy were used for the entire period or if the Coinbase pricing were used for the entire period. Performance data quoted represents past performance of bitcoin. Past performance of bitcoin is not indicative of future results. Bitcoin has historically exhibited high price volatility relative to more traditional asset classes. The value of an investment in bitcoin or the funds could decline rapidly, including to zero.

¹Fidelity, [2021 Institutional Investor Digital Asset Study](#). ²Recovery date refers to the point in time an asset's price reached the price at which the drawdown began. ³Bloomberg data as of 2/7/22. ⁴Glassnodes and 2021 annual reports, earnings calls, and/or press releases. Glassnodes estimates bitcoin transaction volumes by removing transactions without economic substance. For example, Glassnodes removes intra-entity transactions, which are transactions between addresses within the same wallet or owned by the same organization.

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