

Bitcoin Brief

Market Update

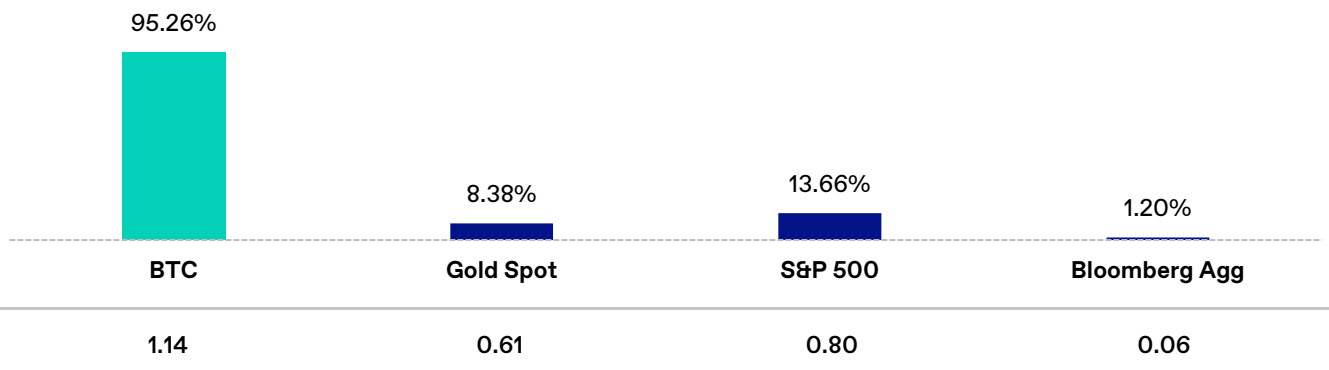
April was a difficult month for assets across the board amidst rising rates as the Federal Reserve attempts to curb inflation. Risk assets suffered disproportionately—the S&P 500 marked its worst month since March 2020, the Nasdaq 100 delivered its worst monthly return since October 2008, and the Bloomberg Aggregate Bond Index had its worst month since inception. This capitulation in risk assets spilled over to bitcoin as well. Bitcoin’s price broke through the \$40,000 support level down to \$38,325 by month end.

The May 4th FOMC statement was a large focus for investors, which, given a challenging earnings season due to slowing growth, spurred volatility in equity markets. Bitcoin volatility, however, was relatively stable. Technical factors have likely been drivers of lower bitcoin volatility; these include 1) increased institutional adoption,¹ 2) reduced regulatory uncertainty in the U.S. on the back of President Biden’s Executive Order, and 3) clarity around restrictions in China on cryptocurrencies. As a result, the ratio of bitcoin’s realized volatility to that of the S&P 500 fell from 6.2 at the start of the year to 4.5 by the end of April.²

Bitcoin’s Correlation to Other Assets

Bitcoin’s rising correlation to other asset classes, including equities, has been a recurring topic for several months. Bitcoin’s 90-day rolling correlation to the Nasdaq 100 Index (NDX) reached an all-time high of 0.64 in April, and both assets returned -12% for the month.³ One reason for the increase in correlation may be the effect of real interest rates, which have become increasingly important as the Fed combats inflation and economic growth slows. The real interest rate is the primary discount rate used to value financial assets and excludes the effects of inflation—mathematically, the real rate is equivalent to the nominal interest

5 Year Annualized Return



HIGHLIGHTS.

- Market Update
- Bitcoin’s Correlation to Other Assets
- Lightning Bringing BTC Payments to Life

MARKET STATS.

As of 4/29/22

BTC Price	\$38,325
BTC Market Cap	\$734B
% of BTC Total Supply in Circulation	>90%
3M Average Daily Bitcoin Transactions	~255K

NOTEWORTHY HEADLINES.

[Fidelity to Allow Retirement Savers to Put Bitcoin in 401\(k\) Accounts](#)

[Grayscale Makes Fresh Push for SEC Approval to Become Bitcoin ETF](#)

[MicroStrategy Funds Latest Purchase With Bitcoin-Backed Loan](#)

[ISDA Aims to Set Standard for Crypto](#)

[Crypto Market’s Direction During a Recession Might Depend on Nasdaq](#)

rate less expected inflation. Real rates have risen substantially year-to-date (now hovering around zero), which has led risky asset prices to fall.⁴

The U.S. dollar has also seen the effects of higher real rates, strengthening relative to other world currencies (DXY +4.7% in April)⁵ as the Fed's hiking cycle outpaced that of other central banks. Rising dollar strength has been deemed a factor in driving poor bitcoin returns this month. Real rates effectively measure the carry value of a given currency, which means the dollar has become relatively more valuable to hold, increasing the exchange rate versus other currencies and stores of value. This may also hold true for bitcoin. As it becomes more valuable to hold dollars, some investors may reallocate from bitcoin to the dollar. It's possible that these dynamics could drive short term price action in bitcoin which, interestingly, has been negatively correlated to the USD since mid-2020.⁶ However, in the long term, NYDIG maintains the view of bitcoin as a secular growth asset, with valuations ultimately driven by technical factors tied to network adoption, user growth, and limited supply.

Lightning Bringing BTC Payments to Life

The Bitcoin 2022 Conference in Miami delivered a number of positive developments for Bitcoin and its potential as a payment mechanism. The Lightning Network is the layer two protocol built on top of the Bitcoin network that allows for extremely fast and cheap bilateral transactions.⁷

Transactions on the Lightning Network do not occur on the Bitcoin blockchain; rather, participants make transactions amongst themselves via balances held in locked accounts that are settled on the Bitcoin blockchain only when users decide to cash out.

At the conference, several well-known FinTech companies announced integrations with the Lightning Network, including Block's (formerly Square) Cash App, Bitpay, and Robinhood. Additionally, Strike, a Lightning-focused payments platform, announced partnerships with Shopify, among others, to enable point-of-sale transactions. Given the length of Bitcoin's block times, ten minutes, on-chain transactions can make for a poor consumer experience in the context of retail transactions.

Last year's conference was dominated by news that El Salvador was planning to adopt bitcoin as legal tender. This year's conference saw similar announcements, albeit from smaller territories (i.e., Madeira, Prospera), that are in line with broader trends that we have seen in 2022. For example, Swiss city, Lugano, announced that it will make bitcoin legal tender⁸ while Rio de Janeiro announced that it will accept cryptocurrencies as payment for real estate taxes.⁹ Panama also passed a bill that would exempt digital assets from capital gains taxes, considering them foreign-source income.¹⁰ Finally, the Central African Republic adopted bitcoin as legal tender.¹¹ We believe these announcements highlight growing adoption of bitcoin and its use cases globally.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	-15.95%	-0.40%	-16.45%	-32.87%	94.16%	95.26%
Gold	-2.09%	5.55%	3.70%	7.22%	13.91%	8.38%
S&P 500	-8.72%	-8.17%	-12.92%	0.21%	13.85%	13.66%
Bloomberg Agg	-3.79%	-7.51%	-9.50%	-8.51%	0.38%	1.20%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	91.7%	1.14	-
Gold	12.8%	0.61	0.13
S&P 500	16.4%	0.80	0.28
Bloomberg Agg	4.0%	0.06	0.20

Sources:

NYDIG, Bloomberg as of 4/29/22, 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.

¹[Crypto Fund Research](#)

² NYDIG, Glassnode, Bloomberg as of 4/29/2022

³ NYDIG, Glassnode, Bloomberg as of 4/29/2022

⁴ [Positive U.S. Real Yields Will Rip Up Global Markets Playbook](#)

⁵ Bloomberg as of 4/29/2022

⁶ NYDIG as of 4/22/2022

⁷ [What is the Lightning Network in Bitcoin and how does it work?](#)

⁸ [Lugano, Switzerland Will Make Bitcoin Legal Tender](#)

⁹ [Rio de Janeiro to Allow Real Estate Tax Payments With Crypto as of 2023, Rio de Janeiro to accept Bitcoin for real estate taxes from 2023](#)

¹⁰ [Panama's Crypto Law](#)

¹¹ [Central African Republic becomes second country to adopt bitcoin as legal tender](#)

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