

Bitcoin's 2Q21 in Review

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SECOND QUARTER 2021 REVIEW

We look back at the second quarter and the events that shaped it, as well as look forward to important events in the future.

QUICK TAKEAWAYS:

- The second quarter was a tough one, as it was bitcoin's weakest 2Q ever and one of its weakest quarters since 2011.
- Putting the second quarter in context is critical, though, as bitcoin just came off 4 consecutive quarters of stellar performance.
- Even after the tough 2Q, bitcoin is still up over 19% year-to-date, making it one of the best-performing assets of 2021.
- Headlines dominated the quarter, including Tesla's about-face, China's crackdown, El Salvador's adoption, Taproot activation, and numerous banks & banking partners gearing up to enable client access to bitcoin.
- China's push on mining resulted in precipitous drops in network hash rate and electricity consumption, but the network continues to operate as expected. We believe Bitcoin will be in a better place in the long term.
- Although it is a noisy metric, bitcoin dominance is back on the rise after ceding ground during the rally in alts earlier in the quarter.
- With 2Q behind us, there is much to look forward to, including continuing adoption by institutions, activation of millions of traditional banking customers with the ability to buy bitcoin, and foundational technology upgrades.

2Q21 Marks One of Bitcoin's Toughest Quarters

Bitcoin had a tough second quarter, finishing the period down 40.7%. This not only makes 2Q21 one of bitcoin's weakest performing quarters since 2011 but also its weakest second quarter ever. The second quarter has historically been a period of strong returns, with only two prior second quarters showing negative returns, reminding us that past performance is not indicative of future performance.

	Quarter				Year
	1Q	2Q	3Q	4Q	
2011	161.5%	1952.1%	-70.1%	-5.0%	1426.7%
2012	7.0%	34.9%	84.9%	8.3%	189.1%
2013	626.2%	-6.9%	41.0%	479.8%	5428.7%
2014	-37.9%	41.0%	-39.0%	-17.9%	-56.1%
2015	-23.9%	7.5%	-10.0%	82.4%	34.2%
2016	-3.8%	61.1%	61.1%	58.9%	124.3%
2017	10.8%	130.4%	75.5%	220.8%	1336.4%
2018	-50.1%	-7.8%	3.3%	-43.3%	-73.0%
2019	9.4%	174.4%	-26.3%	-13.7%	90.9%
2020	-9.4%	41.1%	17.2%	172.5%	308.5%
2021	100.8%	-40.7%			19.1%
Mean	71.9%	217.0%	13.8%	94.3%	881.0%
Median	7.0%	41.0%	10.3%	33.6%	156.7%



Source: NYDIG

Quarter Comes of the Heels of Very Strong Performance

When contextualizing the weak performance in 2Q21, we think it is important for investors to keep in mind the recent performance of bitcoin. Even though bitcoin was down 40.7% in the quarter, it had just come off four consecutive quarters of strong performance. Given this string of winning quarters, we do not find it surprising that investors used the period to realize gains.

Quarterly Return Rankings

Rank	Quarter	Quarterly Return	Rank	Quarter	Quarterly Return
1	2Q11	1952.1%	22	4Q12	8.3%
2	1Q13	626.2%	23	2Q15	7.5%
3	4Q13	479.8%	24	1Q12	7.0%
4	4Q17	220.8%	25	3Q18	3.3%
5	2Q19	174.4%	26	1Q16	-3.8%
6	4Q20	172.5%	27	4Q11	-5.0%
7	1Q11	161.5%	28	2Q13	-6.9%
8	2Q17	130.4%	29	2Q18	-7.8%
9	1Q21	100.8%	30	3Q16	-8.9%
10	3Q12	84.9%	31	1Q20	-9.4%
11	4Q15	82.4%	32	3Q15	-10.0%
12	3Q17	75.5%	33	4Q19	-13.7%
13	2Q16	61.1%	34	4Q14	-17.9%
14	4Q16	58.9%	35	1Q15	-23.9%
15	2Q20	41.1%	36	3Q19	-26.3%
16	3Q13	41.0%	37	1Q14	-37.9%
17	2Q14	41.0%	38	3Q14	-39.0%
18	2Q12	34.9%	39	2Q21	-40.7%
19	3Q20	17.2%	40	4Q18	-43.3%
20	1Q17	10.8%	41	1Q18	-50.1%
21	1Q19	9.4%	42	3Q11	-70.1%

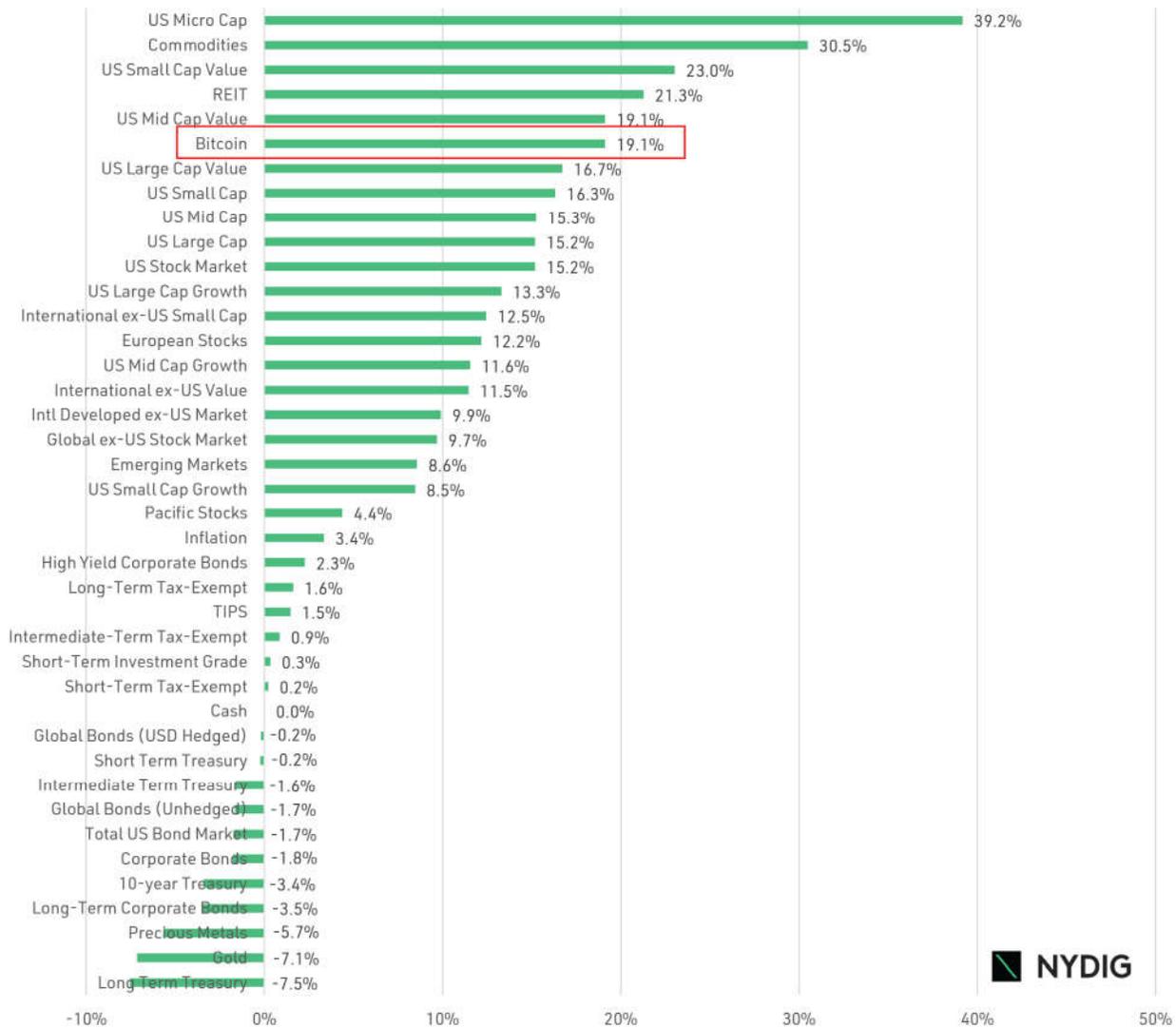


Source: NYDIG

Bitcoin is Still One of the Best Performing Assets Classes of 2021

Despite the tough second quarter, bitcoin is still up 19.1% year-to-date, making it one of the best performing asset classes of 2021 to date. Performance is now more in line with traditional asset classes, but bitcoin still ranks #6 of all asset classes outlined below.

2021 Year-to-Date Returns

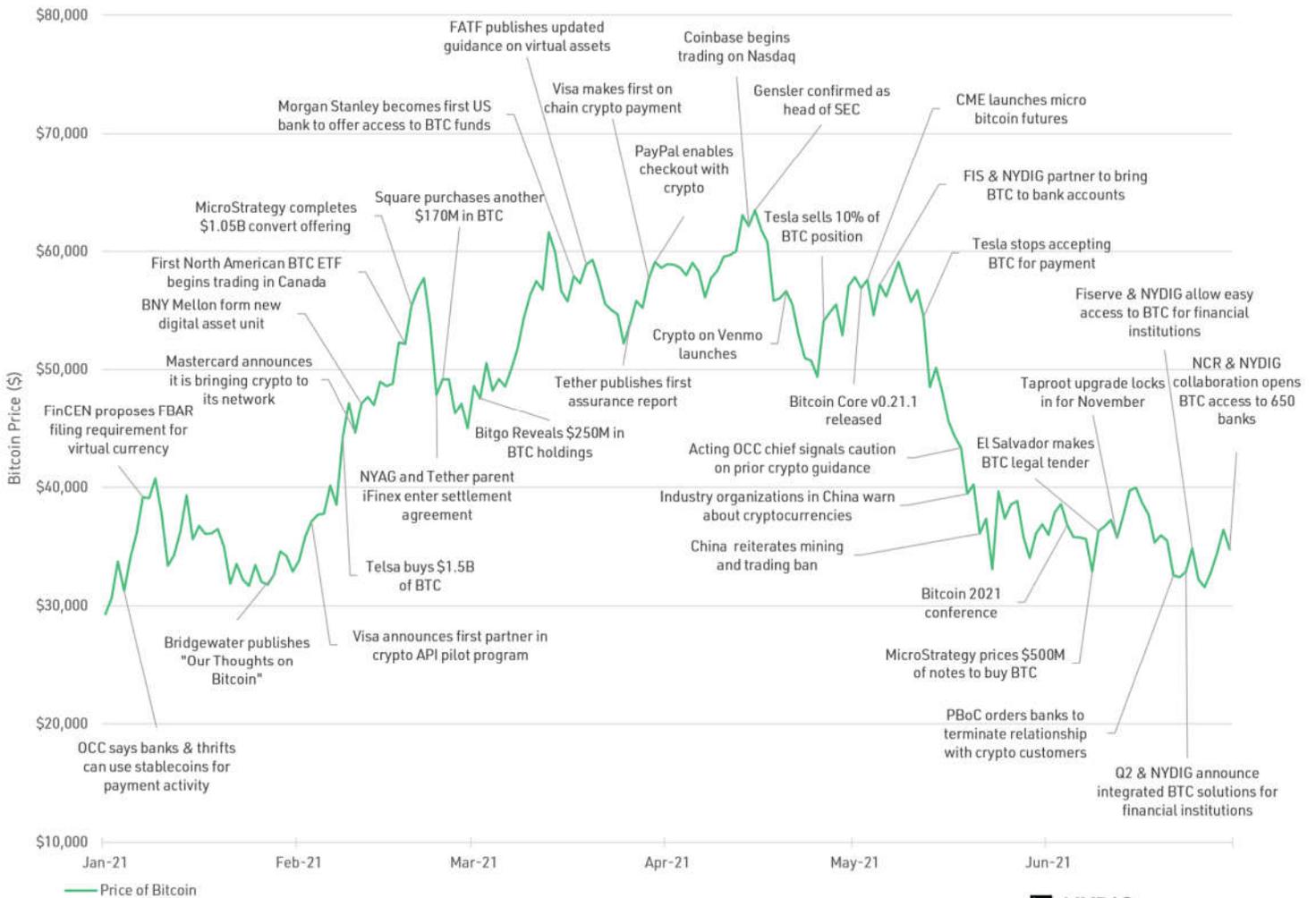


Source: NYDIG, Portfoliovisualizer.com

News Headlines Dominate the Quarter

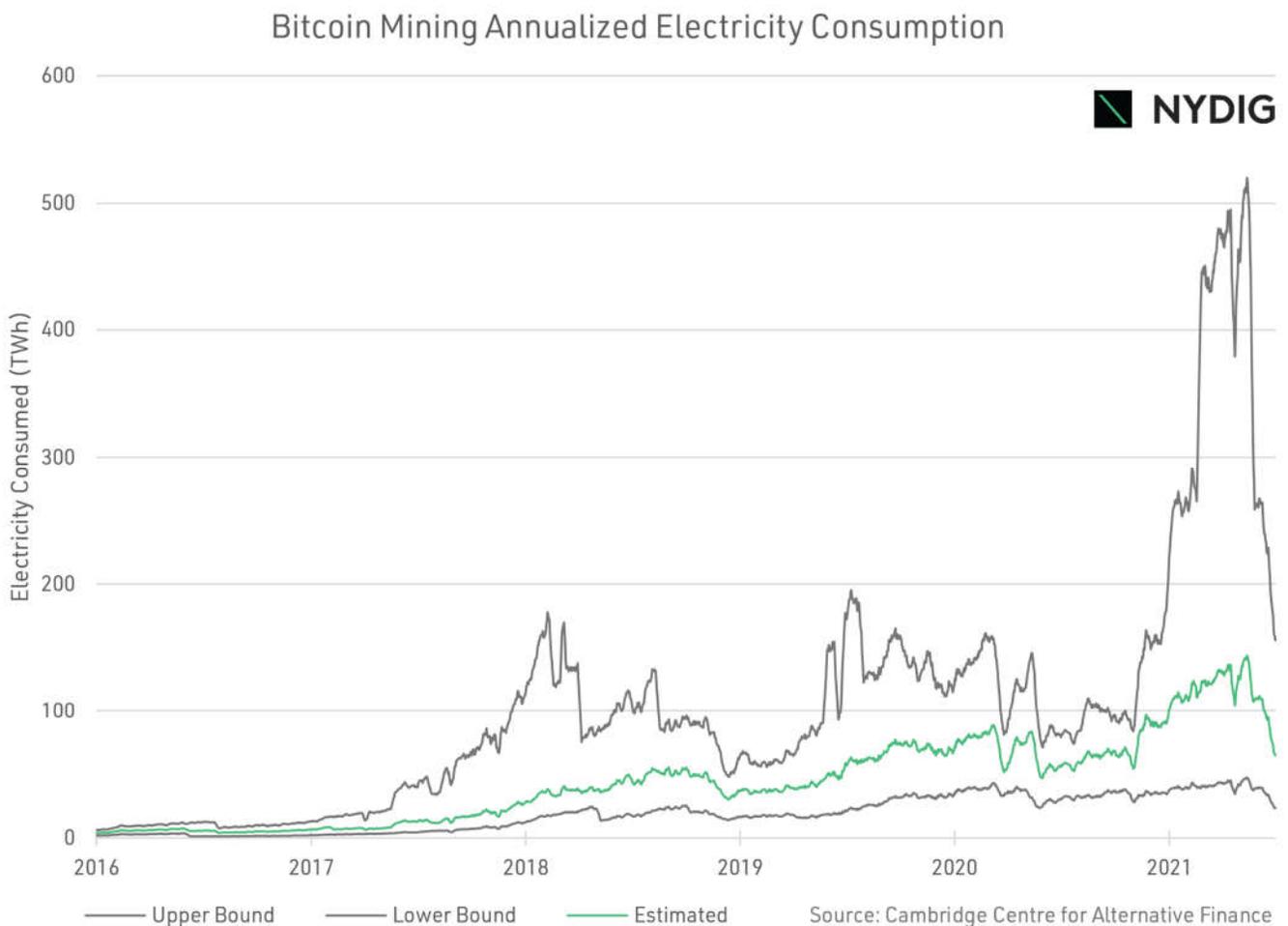
Bitcoin and the ecosystem had several positive items during the quarter. El Salvador became the first nation to accept bitcoin as legal payment, the most significant technology upgrade in four years, Taproot, was approved by miners and will go into effect in November, and numerous banks and bank technology providers, including Alkami, FIS, Fiserv, NCR, and Q2, are working to enable access to bitcoin through traditional banking venues. On the flip side, Tesla's about-face in accepting bitcoin for payment, increasing environmental concerns regarding mining, and China's crackdown on trading and mining weighed heavily on bitcoin during the quarter. We continue to think the elimination of the China overhang will ultimately be good for bitcoin and migration of hash power out of China allows the industry to make bitcoin mining greener and more efficient.

2021 Annotated Bitcoin Price



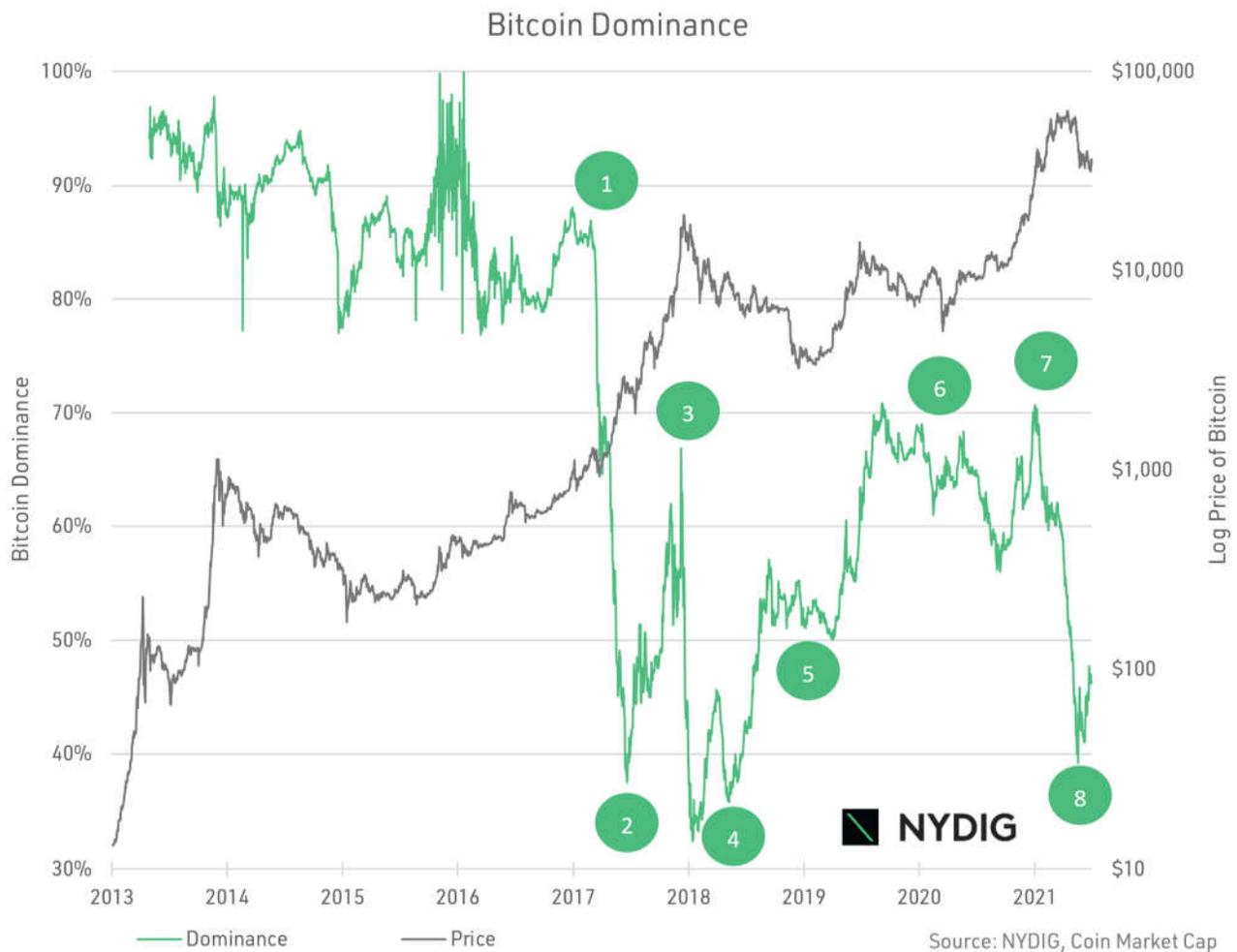
Electricity Consumption Drops Amidst Hash Rate Reduction

Bitcoin's declining hash rate amidst the China mining crackdown was one of the most widely discussed topics during the quarter. With nearly a 70% reduction from the peak so far, bitcoin's hash rate underwent a severe correction as China made a push to shut off mining in every major province. While it remains to be seen where or when that hash rate comes back online, along with the reduction in the hash rate came a swift reduction in electricity consumption. Data from the Cambridge Centre for Alternative Finance indicates that electricity consumption is down 55% from the peak of 143.9 TWh to 64.7 TWh at the end of June. Investors should rest easy that even though the hash rate has come down, bitcoin is still very secure and bi-weekly difficulty adjustment ensures that blocks continue to be produced at regular intervals.



Bitcoin Dominance Fluctuates

Throughout the quarter, we received numerous questions about bitcoin's "dominance," its market cap as a percentage of the overall industry market cap. Dominance can be a noisy signal as the denominator in the measurement, the size of the industry market cap is not stable in terms of the number of constituents. The cryptocurrency industry is secularly growing, and new assets are created, launched, or come into existence daily. This makes comparing dominance levels from cycle to cycle a challenge, but we do think there is some information to glean about cycles and investor preferences from the change in dominance. The following graph highlights some important markers in the history of bitcoin dominance.



- 01.** Bitcoin dominance took its first steep drop in spring 2017, amidst the rise of Ethereum and sudden overnight retail frenzy for alts (alternative currencies), like Litecoin and XRP.
- 02.** Dominance hit a local low in mid-2017 as the Initial Coin Offerings (ICOs) peaked, and bitcoin struggled ahead of the Bitcoin Cash fork.
- 03.** With the Bitcoin Cash fork behind it, bitcoin rallied into year-end, peaking in price in mid-December.
- 04.** Bitcoin dominance hits a cycle low in mid-January 2018, as Ethereum prices reached their cyclical peak nearly a month after bitcoin.
- 05.** During the 2018 drawdown, bitcoin regains dominance as alts fall more than bitcoin, proving their riskiness during the risk-off environment.
- 06.** Bitcoin continues to rally in 2019, gaining dominance, as the asset is up over 90%, while major alts like Ethereum end the year down.
- 07.** Bitcoin dominance breaks through 70% in early January 2021 amidst stellar performance throughout 2020.
- 08.** Bitcoin dominance drops below 40% for the first time in the cycle, as price consolidates while alts rally.
- 09.** Bitcoin regains dominance during the May and June market correction.

Looking Ahead

With the difficult 2Q21 behind us now, we think it's important to look ahead to some of the events that we think will shape the coming months and quarters. On July 21st, Elon Musk and Jack Dorsey will have "the talk" at The B Word conference hosted by The Council for Crypto Innovation, Ark Invest, Square, and the well-respected VC firm Paradigm. Presumably "the talk" centers on Bitcoin's energy consumption, an issue that Musk has aired many times online and the primary reason Tesla stopped accepting bitcoin for payment. Taproot, the most significant technical update to Bitcoin since 2017, will be activated on block 709,632 sometime in mid-November. The growing adoption of bitcoin as a financial asset by institutional investors continues, with names of new well-respected investors in the news regularly. Numerous bitcoin ETF applications continue to work through the SEC process. Finally, the activation of millions of potential bitcoin customers through traditional banks and financial institutions is underway thanks to the efforts of our organization and our banking and technology partners. To us, the secular growth case for the asset has never been clearer.

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