NYDIG | JUNE 2022

Bitcoin **Brief**

Market Update

Bitcoin continued to face performance challenges in June and found itself squarely in bear market territory. The asset returned -40% for the month, its worst monthly return since trading began in 2010. Its price dropped from $31,000 to $18,895 over the course of the month.

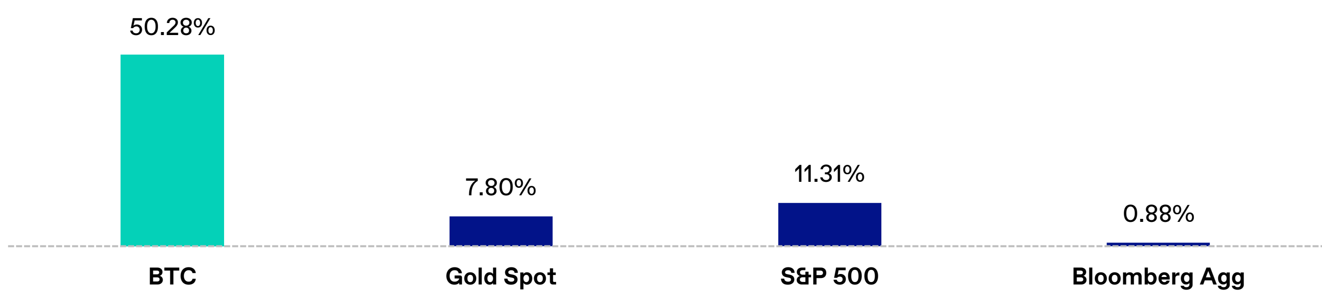
Notably, other risk assets also saw poor returns in June—the S&P 500 returned -8.4% for the month,[1] capping its worst first half return in over 50 years, while the Bloomberg Aggregate Bond Index sold off -1.6%, completing its worst first half performance since inception in 1986.[2]

Miners May Be Selling Bitcoin Holdings for Cash

Rising energy costs and falling bitcoin prices have negatively impacted mining economics. Coupled with a higher cost of capital, lower miner revenues have led miners to sell accumulated balances to fund their operations. Miners are typically long bitcoin as a result of the mining process, whereby the reward for confirming transaction blocks includes newly minted bitcoins, the "block subsidy," and transaction fees. Together, these are known as the "block reward."

Upon receiving a block reward, miners must decide whether to hold or sell bitcoin in the market. In stable or appreciating markets, miners can generate enough cash to cover energy and administrative costs, so many choose to keep most of their bitcoins. However, with lower bitcoin prices and increased volatility, miners may need to liquidate their coins to cover their costs. There is significant evidence of this in public markets. According to public records, public miners net sold 4,411 bitcoins in May 2022 which was considerably more than the average of 1,115 bitcoins per month earlier in the year.[3] If prices stay low, miners may continue selling, but this is unlikely to drive significant downward moves in bitcoin prices, as those same miners own a small fraction—about 0.25%—of total bitcoin in circulation.

5 Year Annualized Return



	BTC	Gold Spot	S&P 500	Bloomberg Agg
5 Yr Sharpe Ratio	0.86	0.57	0.66	-0.02

HIGHLIGHTS.

- Market Update
- Miners May Be Selling Bitcoin Holdings for Cash
- Where Are We in the Bitcoin Cycle?
- Regulations Should Benefit the Industry

MARKET STATS. *As of 6/30/22*

BTC Price	$18,895
BTC Market Cap	$377B
% of BTC Total Supply in Circulation	>90%
3M Average Daily Bitcoin Transactions	~256K

NOTEWORTHY HEADLINES.

Northern Trust Creates Digital Assets Financial Markets Group

Deloitte and NYDIG Announce Partnership to Provide Banking for All with Bitcoin

Payroll, Web3, and the $62B Opportunity

How Financial Advisors Should Think About the Crypto Crash

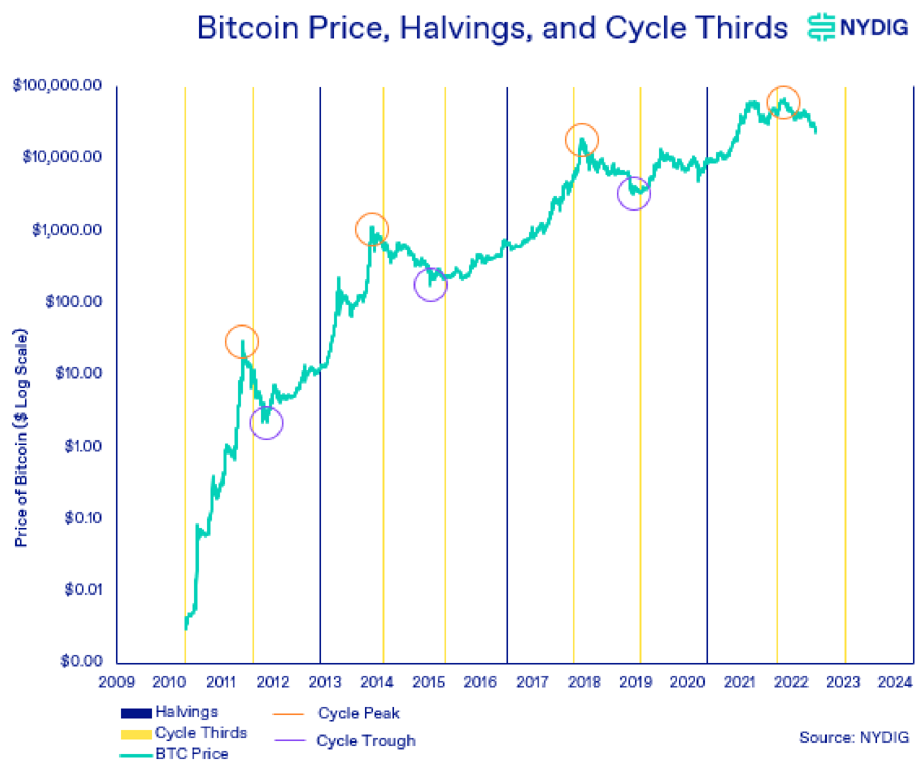
A US Digital Dollar Could Help Maintain International Primacy

IBEX Onboards 85 Merchants in Miami to the Bitcoin Lightning Network

Where Are We in the Bitcoin Cycle?

As bitcoin volatility persists, investors may be wondering where we are in the current bitcoin cycle, and bitcoin halvings may function as a barometer. The halving process reduces the mining block subsidy by half, which enforces bitcoin's fixed supply and predictable issuance rate. Halvings occur roughly every four years, and while only three have occurred so far, each one has occurred in the middle of bitcoin cyclical highs. Moreover, cycle peaks and troughs appear roughly 1/3 and 2/3 of the way through each of the halving cycles, respectively. While we cannot predict the future, if this pattern were to persist, bitcoin price could potentially bottom at the end of 2022 or in early 2023.

While the retreat from the November 2021 all-time high of $69,000 has felt extreme, bitcoin has been here before. Bitcoin is now in its fourth cyclical price wave, with peaks roughly every four years followed by significant drawdowns. However, with each successive cycle, both the return from trough to peak and then the return from peak to trough have decreased in magnitude. This makes sense given the ongoing maturation of the asset class. As more money is invested in bitcoin, it is unlikely that bitcoin will see the same magnitude of compound returns as it did during its infancy. At the same time, NYDIG expects that growing secular demand for the asset will continue to result in smaller drawdowns over time.



Regulations Should Benefit the Industry

Events over the last several weeks have illustrated a clear need for additional regulation in the cryptocurrency industry. The regulatory landscape for cryptocurrency remains constructive, and while there have been numerous proposed bills, the *Responsible Financial Innovation Act* drafted by Senators Gillibrand (NY) and Lummis (WY) has gotten the most attention both inside and outside of the crypto community. The bill is generally seen as a positive force for the industry as it encourages responsible financial innovation, flexibility, transparency, and consumer protections, while outlining a path for digital assets within the existing legislative construct.[4] Bitcoin, which SEC Chair Gary Gensler recently called out as the example of a cryptocurrency that is widely considered a commodity,[5] would continue to be regulated by the CFTC under the bill, unlike other coins which may ultimately be deemed as "unregistered securities." Finally, the bipartisan nature of the proposal is an important stride for the cryptocurrency industry and stresses the U.S. government's commitment to leading the global regulatory change. While this bill is likely to be revised substantially before becoming law, it has positive implications for the broader industry by way of encouraging innovation and ultimately the businesses that drive innovation, to remain onshore.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	-40.20%	-58.56%	-58.81%	-45.65%	15.36%	50.28%
Gold	-1.64%	-6.72%	-1.20%	2.10%	8.64%	7.80%
S&P 500	-8.25%	-16.10%	-19.96%	-10.62%	10.60%	11.31%
Bloomberg Agg	-1.57%	-4.69%	-10.35%	-10.29%	-0.93%	0.88%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	90.6%	0.86	-
Gold	12.9%	0.57	0.18
S&P 500	16.9%	0.66	0.34
Bloomberg Agg	4.0%	-0.02	0.21

Sources:

NYDIG, Bloomberg as of 6/30/22, 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] Bloomberg
[2] Bloomberg, NYDIG
[3] SEC
[4] Landmark Legislation to Create Regulatory Framework for Digital Assets
[5] Axios, Bitcoin is the Only Coin the SEC Chair Will Call a Commodity

Important Disclosures:

This report has been prepared solely for informational purposes and does not represent investment advice or provide an opinion regarding the fairness of any transaction to any and all parties nor does it constitute an offer, solicitation or a recommendation to buy or sell any particular security or instrument or to adopt any investment strategy. Charts and graphs provided herein are for illustrative purposes only. This report does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of New York Digital Investment Group or its affiliates (collectively, “NYDIG”).

It should not be assumed that NYDIG will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client accounts. NYDIG may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this report.

The information provided herein is valid only for the purpose stated herein and as of the date hereof (or such other date as may be indicated herein) and no undertaking has been made to update the information, which may be superseded by subsequent market events or for other reasons. The information in this report may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies, techniques or investment philosophies described herein. NYDIG neither assumes any duty to nor undertakes to update any forward-looking statements. There is no assurance that any forward-looking events or targets will be achieved, and actual outcomes may be significantly different from those shown herein. The information in this report, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

Information furnished by others, upon which all or portions of this report are based, are from sources believed to be reliable. However, NYDIG makes no representation as to the accuracy, adequacy or completeness of such information and has accepted the information without further verification. No warranty is given as to the accuracy, adequacy or completeness of such information. No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions that occur subsequent to the date hereof.