NYDIG | MARCH 2023

Bitcoin **Brief**

“The root problem with conventional currency is all the trust that’s required to make it work. The central bank must be trusted not to debase the currency, but the history of fiat currencies is full of breaches of that trust. Banks must be trusted to hold our money and transfer it electronically, but they lend it out in waves of credit bubbles with barely a fraction in reserve.”

– Satoshi Nakamoto, 11 Feb 2009

Market Update

Bitcoin was explicitly designed for today’s market environment, and it delivered strong performance in the first quarter of 2023. Bitcoin ended the quarter above $28,000 and up 72% YTD, making it bitcoin’s best performing quarter since 1Q21.

The failure, seizure, and forced combination of large banking institutions has shined the light on the benefits of an alternative store of value that requires no trust in the traditional banking system. It should come as no surprise that concerns related to banking coupled with the return of a more dovish Federal Reserve in response to the crisis appear to have renewed demand for a decentralized monetary asset that’s uniquely scarce and has an immutable supply function. Moreover, bitcoin’s price rebound wasn’t deterred by significant regulatory enforcement actions against select digital asset providers.

Digital Asset Banking

Bitcoin’s performance amidst the demise of crypto-friendly banks demonstrates, yet again, the asset’s resilience. Banks are critical partners to digital asset service providers to, among other things, transfer and hold customers' fiat, settle the fiat leg of digital asset trades, and safeguard fiat operating capital. As of January 2023, 136 FDIC insured banks had ongoing or planned digital asset-related activities.[1]

HIGHLIGHTS.

- Digital Asset Banking
- Low Correlation Returns
- Qualified Custodian Proposal

MARKET STATS.

As of 3/31/23

BTC Price	$28,468
BTC Market Cap	$551B
% of BTC Total Supply in Circulation	>92%

NOTEWORTHY HEADLINES.

Gensler Suggests Proof-of-Stake Tokens are Securities

James Continues Crackdown on Unregistered Cryptocurrency Platforms

Lightning Accelerator "In Wolf's Clothing" Announces First Cohort

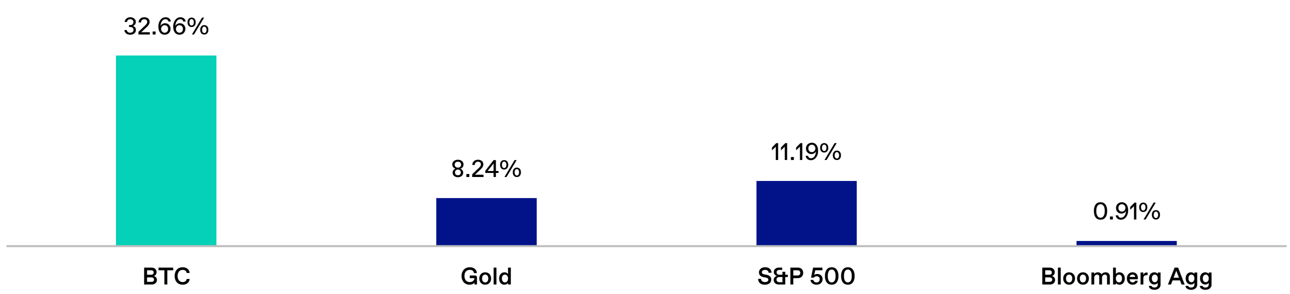
Justice Department Probes Collapse of TerraUSD

SEC Proposes Enhanced Safeguarding Rule for RIAs

SEC Charges Terraform and CEO Do Kwon with Defrauding Investors

Lightning Network Reaches All-Time High in Bitcoin Capacity

5 Year Annualized Return



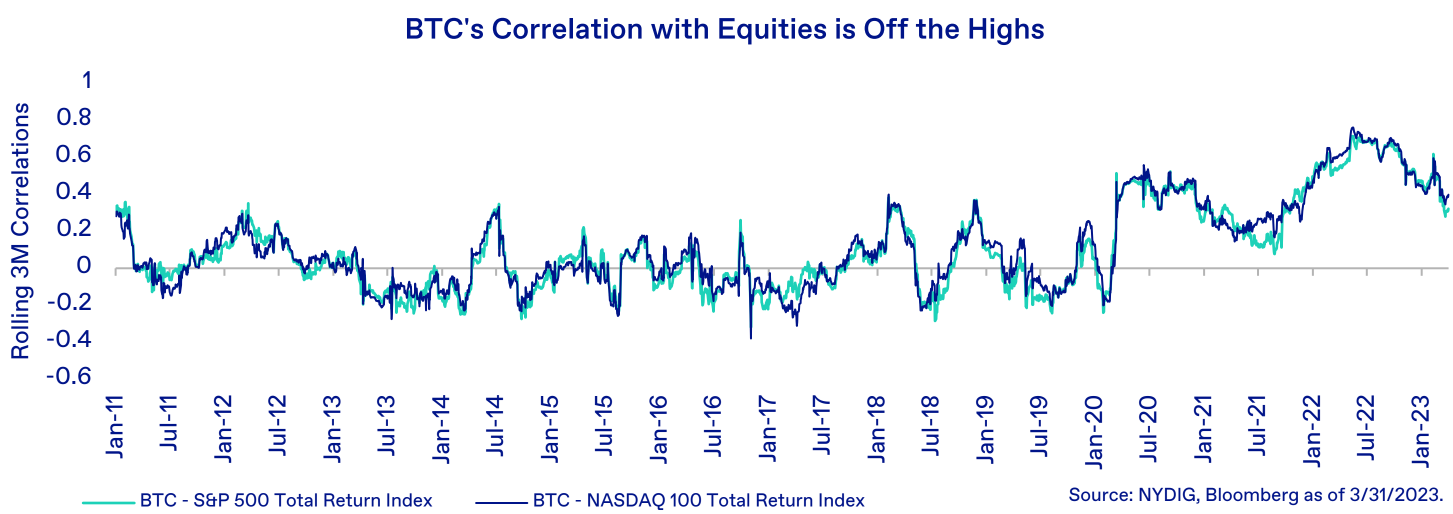
	BTC	Gold	S&P 500	Bloomberg Agg
5 Yr Sharpe Ratio	0.71	0.53	0.59	-0.06

The failures of Silvergate Bank and Signature Bank, and the shuttering of their groundbreaking digital asset-to-fiat settlement networks dubbed SEN and Signet, respectively, had some impact on market liquidity. However, the bitcoin market continued to operate without disruption, and market participants turned to other banking partners and liquidity networks. The bank failures of last quarter have had no material impact on NYDIG's custody and execution services or asset management business.

Low Correlation Returns

While correlations between assets vary over time, bitcoin's diversifying characteristic relative to other risky assets may be returning. Bitcoin's correlation with equities on a rolling 3-month basis fell precipitously in the first quarter after reaching all-time highs (0.70 - 0.75) during the depths of the crypto winter in May 2022. The adage "all correlations go to 1 during periods of market stress" seems to include bitcoin.

Intuitively, bitcoin's unique properties help explain why its returns can be unaffected by factors that influence other asset classes. For example, regardless of what happens with inflation, economic growth, unemployment, or even geopolitics, bitcoin will remain a completely digital monetary asset operating on a rapidly growing and decentralized network. On average over time, NYDIG expects that bitcoin will continue to deliver diversification benefits to portfolios.



Qualified Custodian Proposal

One of the regulatory proposals to come out of the SEC in the wake of the calamitous events of the last year is an update to the "custody rule" under the Investment Advisers Act of 1940. Among other things, the proposed rule change clarifies the SEC's stance that the custody rule applies to digital assets (regardless of one's views as to whether a particular digital asset is a security or a commodity). If the proposed rule change is adopted, registered investment advisers ("RIAs") will unequivocally be required to hold client digital assets with a qualified custodian ("QC"), a requirement that many believe already exists. This may limit RIAs' ability to trade through digital asset exchanges since most do not employ the proposed safeguards today, and it could prove challenging for such exchanges to come into compliance with these requirements.

NYDIG has long believed that digital assets should and would be regulated like traditional assets. Accordingly, NYDIG Trust Company LLC, the firm's digital asset custodian regulated by the New York State Department of Financial Services, has always protected client assets in the manner traditionally expected of QCs.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	22.31%	71.89%	71.89%	-37.56%	63.85%	32.66%
Gold	7.79%	7.96%	7.96%	1.64%	7.68%	8.24%
S&P 500	3.67%	7.50%	7.50%	-7.73%	18.60%	11.19%
Bloomberg Agg	2.54%	2.96%	2.96%	-4.78%	-2.77%	0.91%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	80.0%	0.71	-
Gold	14.1%	0.53	0.18
S&P 500	18.6%	0.59	0.41
Bloomberg Agg	5.5%	-0.06	0.25

Sources:

NYDIG, Bloomberg, Glassnode data as of 3/31/2023, unless noted otherwise. All prices are 4:00 pm ET prices on the last business day of each month. Bloomberg 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] FDIC Office of Inspector General, Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation, 16 Feb 2023.

Important Disclosures: