VALKYRIE

Weekly Market Review - November 7th, 2022

Key Takeaways

- The Fed and Jerome Powell remain firmly hawkish in the near term
- Terminal Fed Funds Rate is likely to exceed 5.00% over the next year
- US midterm elections and CPI will likely bring further volatility this week

Traditional Market Commentary

Last week confirmed the Fed is in the driver's seat and in control of what direction comes next. Investors were hopeful on some type of indication for a pivot from the Fed last Wednesday after deciding on a 75 bp hike with no pause or slowdown in sight. Fed Chairman Powell made it extremely clear the hawkish sentiment will continue until the data proves otherwise, with an even higher terminal rate above 5% possible. After a brief rally immediately following the announcement, equities tumbled with the S&P 500 index declining almost 200 points by end of day, and the 10-year treasury yield rising over 20 bp after declining initially by 7 bp. Fortunately, both markets stabilized through the week with the 10-year trading in range between 4.15-4.20%, and the S&P 500 finishing about 3750 by Friday.

Interest rates are the focus with Fed futures pricing in a high range of 5.00-5.25% for most of 2023. However, for the first time this cycle, the 5.75-6.00% range gained traction albeit less than 1.0% at the moment. The US yield curve moved higher by at least 10 bp with the front end of the curve rising by at least 15 bp. The 2-year reached 4.75% last week, a first since the 2005-2007 pre-credit crisis period, and late 2000 before that. The 2/10 treasury yield spread declined to -61 bp, the lowest point of the current cycle and first since 1981. The spread, a traditional recessionary indicator, has been negative since the beginning of July. Lastly, the 30-year fixed mortgage average rate continues to see new highs currently at 7.3%, up almost 140% since last November closer to 3.0%.

Tuesday's US midterm elections will dominate headlines with both parties looking to make gains in congress, which can set a better outlook on what to expect politically over the next couple years. But the Fed will get more key data points this week with the CPI suite released Thursday, with the yearly survey coming down to 7.9% from 8.2%, but the monthly indication looking to rise slightly to 0.6% from 0.4%. Then the University of Michigan consumer sentiment, surveyed to decline for the first time since a historical low at the end of June.

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Please see important disclosures on last page.

Indices	Ticker	Price ($)	Returns (%)				
			1 week	1 month	3 month	YTD	1 year
S&P 500	SPX	3901	2.73	6.05	-5.28	-18.15	-15.45
Nasdaq 100	NDX	11546	1.01	2.82	-10.78	-29.25	-27.41
Russell 2000	RUT	1846	5.46	8.08	-1.93	-17.74	-21.68
Dow Jones Ind.	DJI	32861	4.32	11.43	0.19	-9.57	-8.50
Commodities							
Crude Oil	CL1	86.58	1.99	3.84	-8.00	14.70	3.24
Brent Crude	BRN00	92.56	1.17	4.35	-7.38	18.76	9.47
Natural Gas	NG00	6.45	24.78	-0.92	-21.43	79.80	20.98
Unleaded Gas	RB00	2.50	0.18	-0.30	-16.30	13.24	4.19
Gold	GC00	1639.70	-0.87	-4.02	-8.33	-10.41	-8.63
Silver	SI00	19.01	-0.94	-8.43	-6.52	-18.60	-21.20
Copper	HG00	3.37	-1.70	-1.17	-4.38	-24.29	-23.08
Corn	C00	695.00	1.94	2.09	13.75	17.30	20.03
Wheat	W00	875.00	4.29	-4.08	9.44	13.60	9.61
Bloomberg Commodity Index	BCOM	112.5	1.10	0.90	-7.67	13.43	8.83
Bitcoin	BTC	20711.82	-0.94	1.07	-13.03	-55.18	-66.34
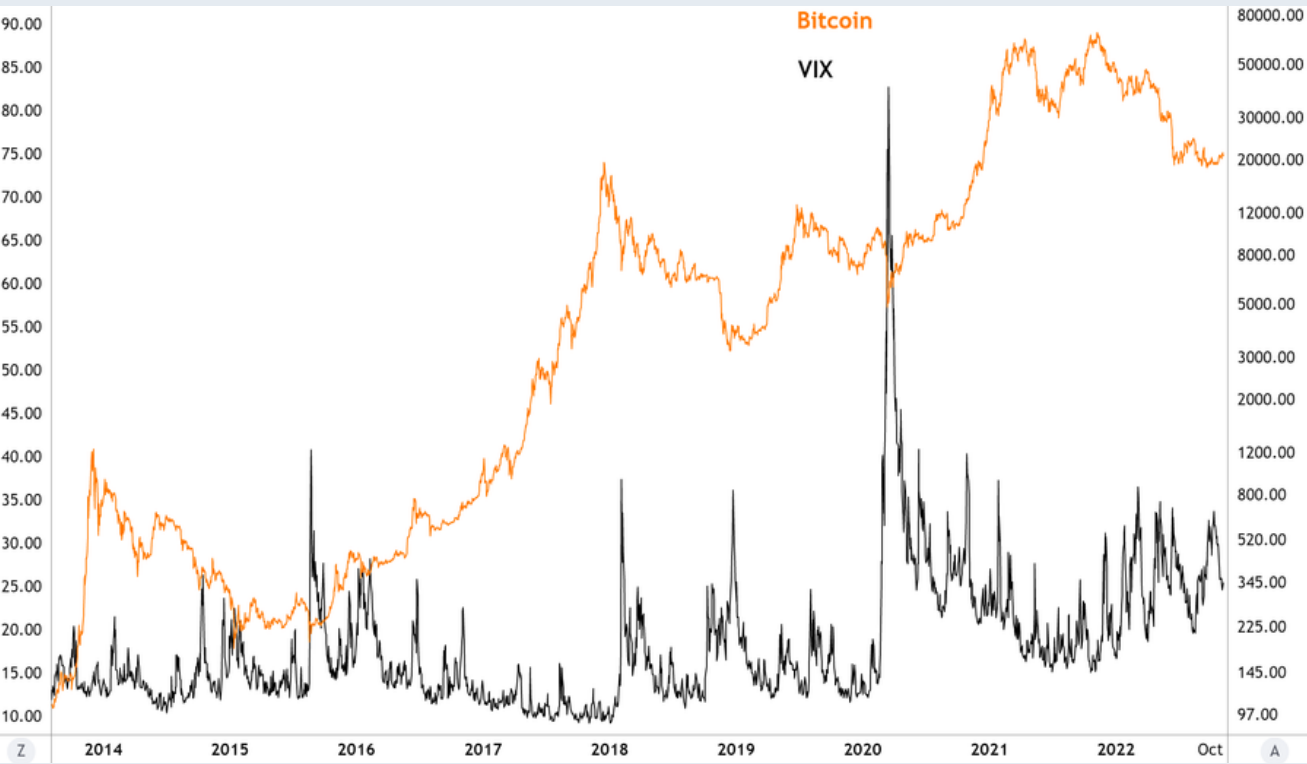
Source: TradingView

News Review

- JPMorgan Executes Its First DeFi Trade Using Public Blockchain
- UBS AG Launches the World's First Digital Bond That is Publicly Traded and Settled on Both Blockchain-based and Traditional Exchanges
- Goldman Sachs, Coin Metrics, and MSCI Create Digital Asset Taxonomy System
- Stablecoin Issuer Circle Begins Putting Reserves Into New BlackRock Fund
- 401(k) Plans Now Let Workers Put Retirement Money Into Cryptocurrency
- Meta to Let Users Mint and Sell Polygon-Powered NFTs on Instagram
- Google Cloud Announces Solana Blockchain Node Validator Services
- Crypto is about to change bookkeeping rules—and soon the accounting profession
- In Bankrupt Lebanon, Locals Mine Bitcoin and Buy Groceries with Tether, as $1 is Now Worth 15 Cents
- African Grocery Chain PiknPay Seamlessly Integrates Bitcoin Lightning Network Payments
- Crypto Wireless Carrier Helium Mobile Will Power Solana's Saga Smartphone
- ASICS Taps STEPN to Launch Running Shoe, Solana NFT Collections
- Project Cedar: NY Fed Launches Effort To Design Wholesale CBDC

Key Takeaways

- Traditional finance continues to become more comfortable with digital assets
- Polygon (MATIC) has remained a strong overperformer after business integrations
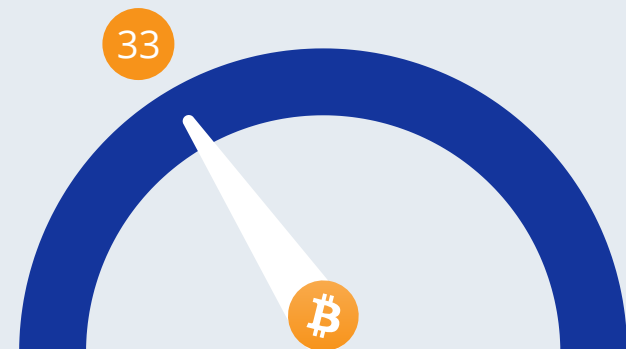- Bitcoin's multi-month volatility squeeze remains unchanged, set for a move by EoY

On-Chain Commentary

Despite the flurry of layoff announcements in the digital asset space (and tech sector broadly) over the past week, several old school finance powerhouses have directly joined the digital asset domain. JPMorgan, UBS, Goldman Sachs, BNY Mellon and Blackrock have become more comfortable with the idea of offering direct investment, becoming a custodian of, or participating in digital asset transactions. Additionally, the not-so-flashy Financial Accounting Standards Board (FASB) recently announced a developing policy to treat digital assets using fair value accounting, paving the way for future companies to feel more comfortable holding Bitcoin on the balance sheet. These announcements won't solely or collectively change the hearts and minds of investors overnight in a bear market, but these traditional finance integrations do pave the groundwork for further institutional adoption years in the future.

Despite the significant macro headwinds, digital assets have mostly held flat or moved higher in the past week. Bitcoin price volatility continues to hold near multi-year lows with Polygon (MATIC) rising over 30% on the month thanks to direct NFT utility integrations with Reddit and Instagram, as well as mobile app rewards integrations with Starbucks. Technicals for Bitcoin continue to suggest the high likelihood of a volatility spike over the next few weeks with Bollinger Bands as tight as late 2018. Unlike 2018, price has moved above the key 20-week moving average suggesting the potential for upside breakout, which would confirm above $24,000.

Crypto	Ticker	Price ($)	Returns (%)					M Cap (bn)	Annualized			
			1 week	1 month	3 month	YTD	1 year		Issuance (%)	Stake Yield (%)	Volatility	Sharpe
Bitcoin	BTC	20711.82	-0.94	1.07	-13.03	-55.18	-66.34	397.68	1.75	N/A	0.64	-1.33
Ethereum	ETH	1580.50	0.69	0.49	-11.08	-57.00	-65.06	193.41	0.16	4.65	0.84	-0.77
Binance Coin	BNB	328.70	-2.81	0.92	1.14	-35.79	-48.51	52.58	0.00	4.13	0.71	-0.47
Solana	SOL	31.29	-4.06	-3.92	-25.82	-81.59	-87.90	11.26	4.53	5.80	1.05	-1.36
Polygon	MATIC	1.22	6.95	34.66	31.89	-51.88	-35.53	10.62	3.20	7.32	1.18	0.21
Polkadot	DOT	6.96	2.10	5.00	-24.96	-73.90	-86.63	7.89	8.06	14.01	0.97	-1.56
Tron	TRX	0.06	-0.15	-1.38	-10.80	-17.15	-39.22	5.76	0.85	3.15	0.72	-0.26
Avalanche	AVAX	18.17	-0.43	-5.82	-34.92	-83.41	-76.94	5.44	5.60	8.76	1.17	-0.56
Cosmos	ATOM	14.28	-1.32	-0.66	20.85	-55.98	-60.61	4.09	13.28	20.54	1.18	-0.19
Near	NEAR	0.43	5.81	18.98	17.57	-74.27	-76.77	3.03	6.33	10.74	1.32	-0.27
Algorand	ALGO	3.08	-0.76	-0.95	-43.94	-79.10	-69.54	2.52	4.05	6.72	0.95	-1.02
Fantom	FTM	0.26	-2.14	8.87	-31.47	-88.44	-90.61	0.66	2.96	6.69	1.37	-0.92
Zilliqa	ZIL	0.03	1.85	3.23	-29.78	-57.09	-70.16	0.43	4.79	11.72	1.66	-0.09

Bitcoin Fear and Greed Index

Multifactorial Market Sentiment Analysis

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Last Week: 31   Last Month: 24

Source: Alternative.me
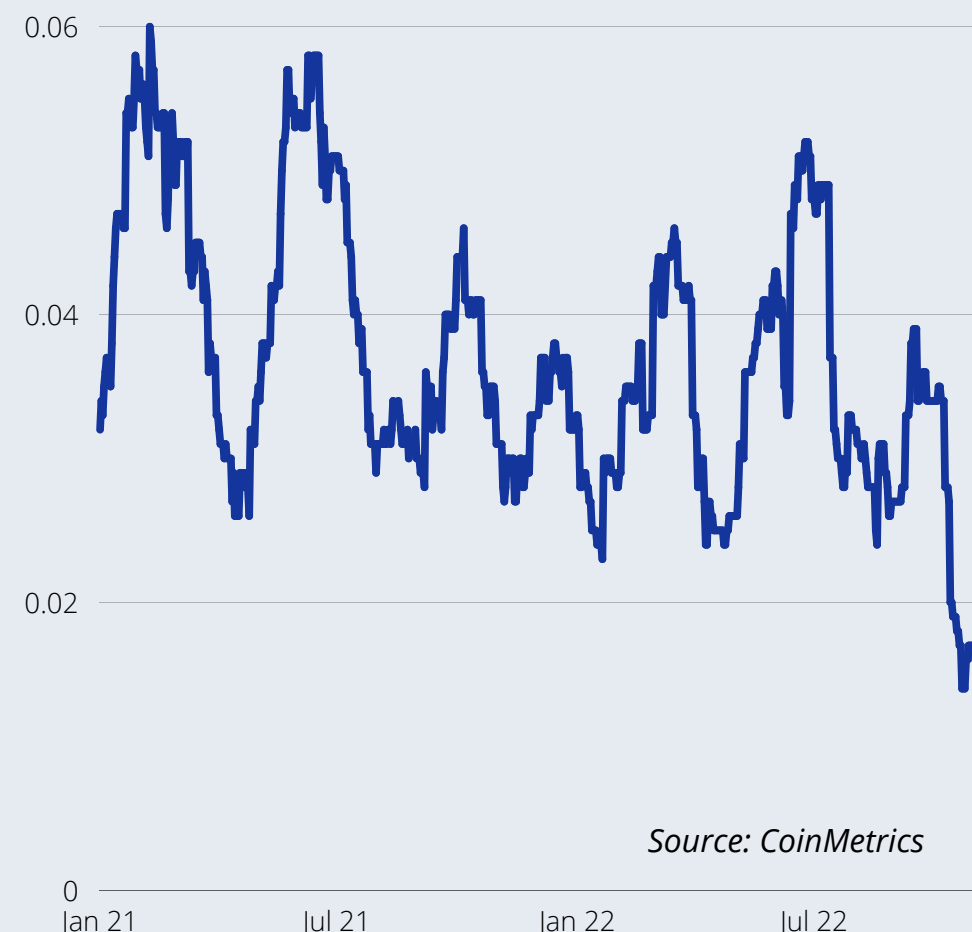
Bitcoin Monthly Average Hashrate

300 EH/s
200 EH/s
100 EH/s
0 EH/s
Jan 21   Jul 21   Jan 22   Jul 22

Source: CoinMetrics

Bitcoin 30-Day Rolling Volatility

0.06
0.04
0.02
0
Jan 21   Jul 21   Jan 22   Jul 22

Source: CoinMetrics

Bitcoin Moving Averages

2-year Moving Average
5*2-year Moving Average
200-week Moving Average

Source: TradingView

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Stablecoin Origins & Purpose

Stablecoins are a sector of cryptocurrencies which attempt to peg value to $1, typically using an external reference, such as USD or EUR. The main types of stablecoins include; fiat-backed, crypto-backed, algorithmic, or hybrid collateralization.

Tether (USDT) was initially created in 2014 to act as a potential hedge against market volatility, as well as increasing the transferability and convertibility of fiat currencies to cryptocurrencies. Tether's usage and supply grew substantially throughout the 2017 Bitcoin bull run, which significantly increased adoption of USDT trading pairs on crypto exchanges. As scrutiny increased over Tether's reserves, competing projects like Circle's USD Coin (USDC) arose with a focus on increased transparency. Today, most fiat-backed stablecoins, including Tether, release monthly reserve attestations.

Fiat-Backed

The two largest stablecoins by circulating supply, USDT and USDC, are both backed by USD reserves and/or USD equivalents held in third-party financial institutions. Issuing these types of stablecoins directly from the servicer also requires KYC/AML compliance and minimum capital requirements.

Crypto-Backed

Crypto-collateralized stablecoins require on-chain management with the use of smart contracts, which also allows for 100% transparency of reserves and collateralization levels. Most crypto-backed stablecoins do not have KYC/AML or minimum capital requirements for initialization but do require overcollaterization of loans to buffer against market volatility. If these loans fall below the required collaterization level, they are liquidated.

Algorithmic

Of all stablecoin types, algorithmic or seigniorage-style stablecoins have had the most difficulty maintaining a $1 peg, historically. This stablecoin type does not require collateral and are managed on-chain via smart contracts. Algorithmic stablecoins *will* increase or decrease the circulating supply to maintain stablecoin value.

Tether Redemptions & Reserves

Tether experienced about $19 billion in redemptions, approximately 20% from the peak, since the Terra and UST algorithmic stablecoin implosion in mid-May. Earlier this year, Tether saw increasing scrutiny regarding the components of it's reserve holdings, including a nearly 25% slice of commercial paper. Going forward, Tether will be replacing the MHA Cayman accounting firm with BDO Italia and will publish monthly attestations of stablecoin reserves. According to the latest attestation of reserves, commercial paper holdings have declined to 12% of the total reserves. Tether has said they plan to reduce these holdings to zero by the end of the year, as well as plans for a full audit through BDO Italia. As of September 30th, the Tether reserves now hold 58% US Treasury Bills, per Paolo Ardoino, Tether's CTO.

Stablecoin Circulating Supply

Source: DeFi Llama

Stablecoin Net Exchange Flow

Source: Nansen
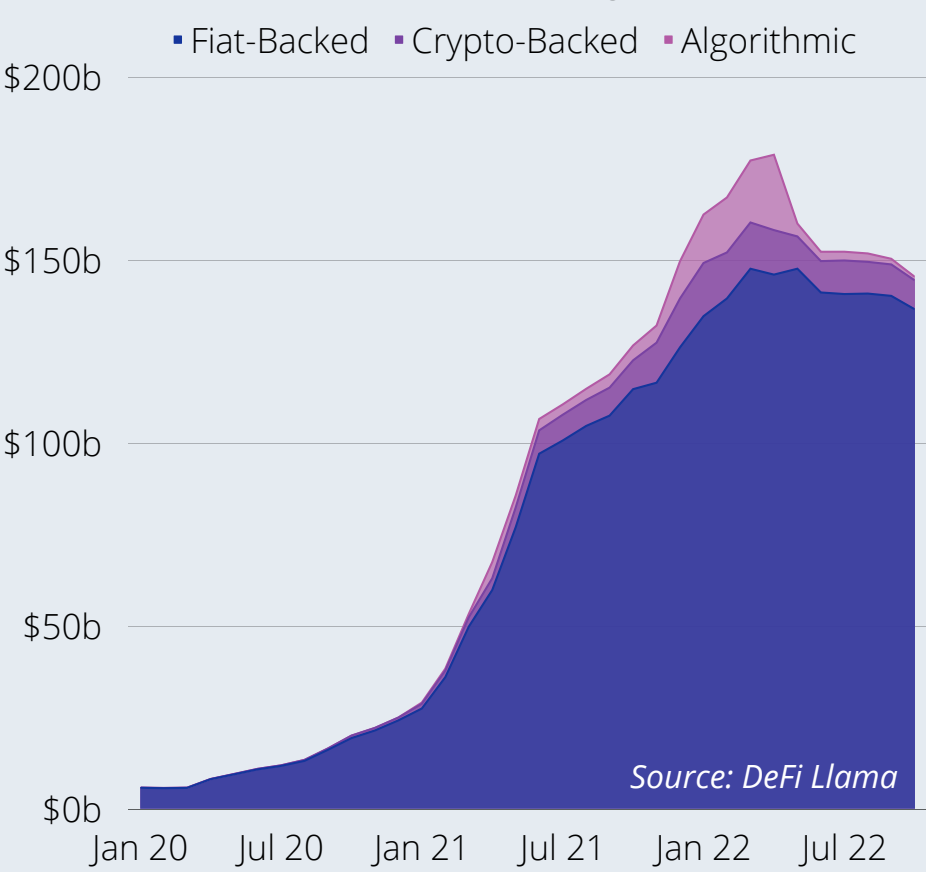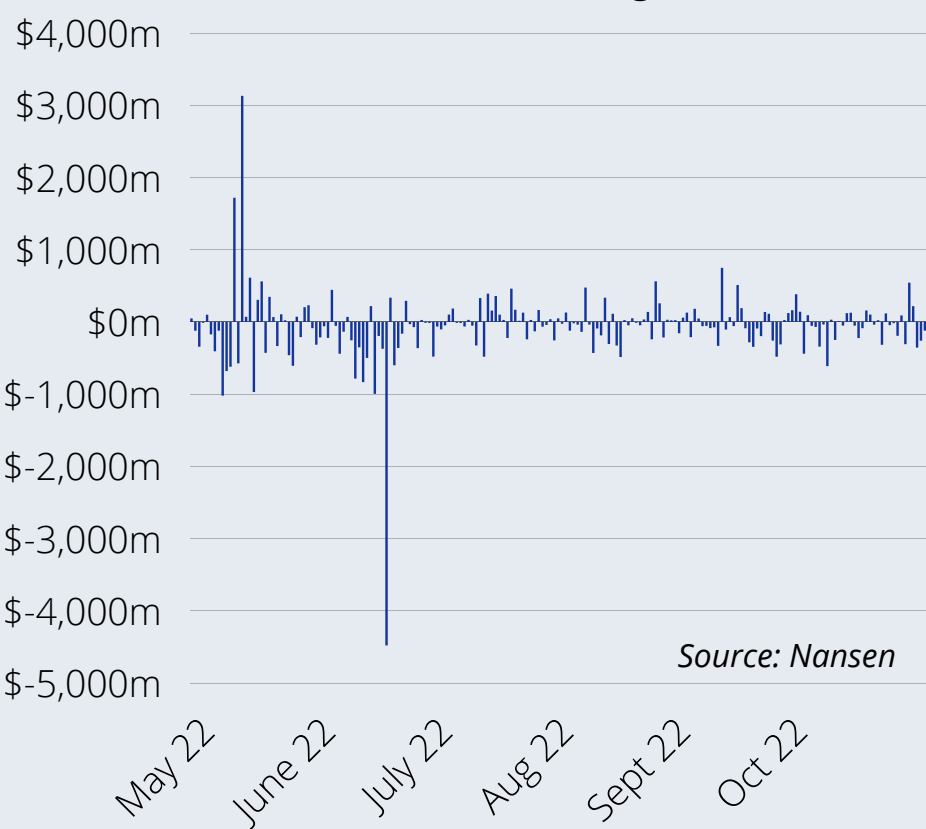
Fiat-Backed	Ticker	Supply ($, bn)	Launch	Chain
Tether	USDT	69.50	Sept '14	Multi
Circle	USDC	42.05	Sept '18	Multi
Binance	BUSD	22.61	Sept '19	Multi
Paxos	USDP	0.89	Sept '18	ETH, BSC
TrueUSD	TUSD	0.81	Jan '18	Multi
Gemini	GUSD	0.78	Sept '18	ETH
Huobi	HUSD	0.04	Nov '18	ETH, SOL

Crypto-Backed	Ticker	Supply ($, bn)	Launch	Chain
MakerDAO	DAI	5.79	Dec '17	Multi
Abracadabra	MIM	1.81	May '21	Multi
Liquity	LUSD	0.19	Apr '21	ETH
Synthetix	sUSD	0.13	Dec '18	ETH, FTM
mStable	mUSD	0.05	May '20	ETH

Algorithmic	Ticker	Supply ($, bn)	Launch	Chain
Frax	FRAX	1.22	Dec '20	Multi
Neutrino	USDN	0.11	Oct '19	Multi
Fei USD	FEI	0.05	Dec '20	ETH
TerraUSD	UST	0.00*	Sept '20	Multi

On-Chain Commentary, Decentralized Finance (DeFi) Commentary, Traditional Market Commentary: Source: Valkyrie Investments, Inc.

Coin Prices, Market Capitalizations, and Returns: Source: Valkyrie Investments, Inc., TradingView, Messari. All returns represent total return for stated period. Coin Logos: Source: cryptologos.cc

Annualized Issuance, Staking Yield, Volatility, and Sharpe Ratio: Source: Valkyrie Investments, Inc., Messari, StakingRewards.com. ETH staking rewards values are representative of the network post-Proof-of-Stake transition.

Bitcoin Fear and Greed Index Source: Valkyrie Investments, Inc., alternative.me and represents a multifactorial sentiment analysis index of volatility, market momentum and volume, social media, bitcoin market cap dominance, and Google trends

Bitcoin Monthly Average Hashrate, Bitcoin 30-Day Rolling Volatility: Source: Valkyrie Investments, Inc., CoinMetrics

Bitcoin Weekly Moving Averages: Source: Valkyrie Investments, Inc., TradingView - INDEX:BTCUSD

Stablecoin Origins & Purpose, Fiat-Backed, Crypto-Backed, Algorithmic, Tether Redemptions & Reserves: Valkyrie Investments, Inc., Tether Operations, CoinMetrics, Circle, and Paxos

Stablecoin Circulating Supply: Source: Valkyrie Investments, DeFi Llama - list and examples shown are non-exhaustive, intended for illustrative purposes only.

Stablecoin Net Exchange Flow: Source: Valkyrie Investments, Inc., Nansen and represent wallet inflows and outflows of Tether, USD Coin, Binance USD, PAX, and Huobi USD through crypto exchanges, including but not limited to; Binance, Curve.fi, AnySwap, Crypto.com, Uniswap, Hop Protocol, OKEx, Kucoin, dYdX, Coinbase, Kraken, Huobi, FTX, Gemini, FTX US, CoinList, SushiSwap, Gate.io, Balancer, BitMEX, Bitfinex, Bittrex, Binance US, Bitstamp, BlockFi, Paxos, Celsius, Alameda OTC, Poloniex, HitBTC, Bancor, Kyber, and ShibaSwap.

List and examples shown in the Stablecoin table are non-exhaustive, intended for illustrative purposes only. Chain data sourced from CoinMarketCap. "Multi" description can include Ethereum, Solana, Binance Smart Chain, Algorand, Tron, Fantom, Polygon, Avalanche, Arbitrum, Secret, Terra, Moonriver, Velas, and Harmony. Coin Logos: Source: cryptologos.cc

"Indicies" prices and returns: Source: Valkyrie Investments, Inc., MarketWatch. "S&P 500" provided by Standard & Poor's and is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States, "Nasdaq 100" provided by NASDAQ OMX Group and includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. "Russell 2000" provided by FTSE Russell and is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. "Dow Jones Ind." provided by S&P Dow Jones Indices and is a price-weighted measurement stock market index of 30 prominent companies listed on stock exchanges in the United States. "Gold" provided by NYMEX - CME Group and is a continuous futures product. All returns represent total return for stated period.

"Commodities" prices and returns: Source: Valkyrie Investments, Inc., Wall Street Journal. Bloomberg Commodity Index provided by Bloomberg and tracks prices of futures contracts on physical commodities on the commodity markets. All returns represent total return for stated period.

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