

## Key Takeaways

- The Fed has continued to raise rates to its desired terminal rate of 5%
- Risks of overtightening have emerged as inflation projections wane
- Despite a down year, equity expectations remain negative until H2 2023

## Traditional Market Commentary

Investors celebrated the New Year by raising a glass to the conclusion of a difficult 2022, where controlling inflation dominated economic activity and continued to stifle growth into 2023. Fortunately, after hiking Fed Funds by over 400 bp last year, a terminal rate close to 5.00% is near, allowing the general economy to finally absorb the impact. This is likely to be reflected by labor indications, consumer activity through the holidays, and inflationary metrics across various sectors. The Fed continues to convey the same message on inflation and use any means to combat further rises, which some think may push the economy into recession if not done with delicacy.

Economic releases start the year off fast with the FOMC meeting minutes to be released Wednesday, followed by Friday's release of December's unemployment rate, which is expected to remain unchanged at 3.7%. Focus will remain on jobs as strategists call for unemployment to rise to the 4.5-5.0% level by the end of year, despite remaining at its current level for the majority of last year. CPI will be released next Thursday, January 12th, with surveys expecting a drop to 6.7% from 7.1%, with core CPI to fall in similar fashion. Oil and energy related futures have continued to trend lower which has helped ease living costs for those consumers now entering into the teeth of winter.

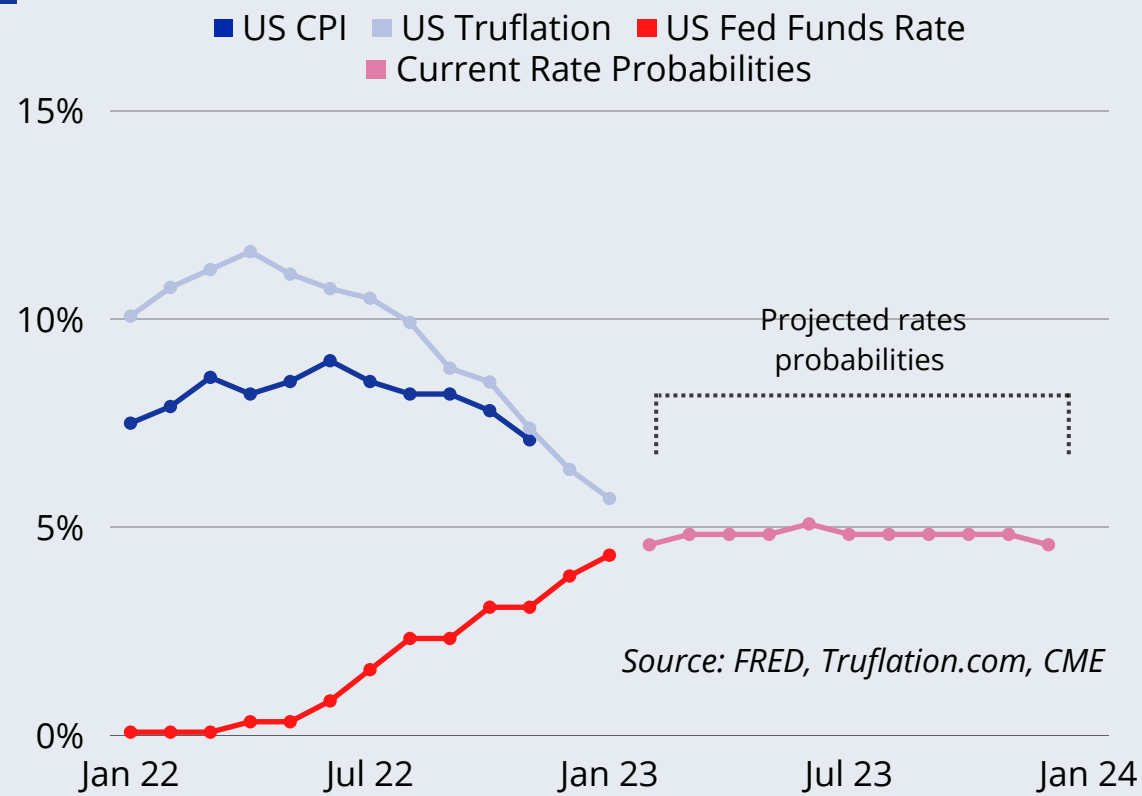
Finally, equities and interest rates experienced a historically bad year with the S&P 500 down almost 20% and the tech heavy Nasdaq Composite down about 33%. Interest rates followed Fed Funds with the 10-year rising 150%, or about 225 bp, settling closer to 4%. Higher rates mean pain for the housing sector, dependent as it is on financing. And while all related housing metrics declined over the year, expectations remain negative for at least the first half of the year, with no pivot yet in sight.

### Authors:

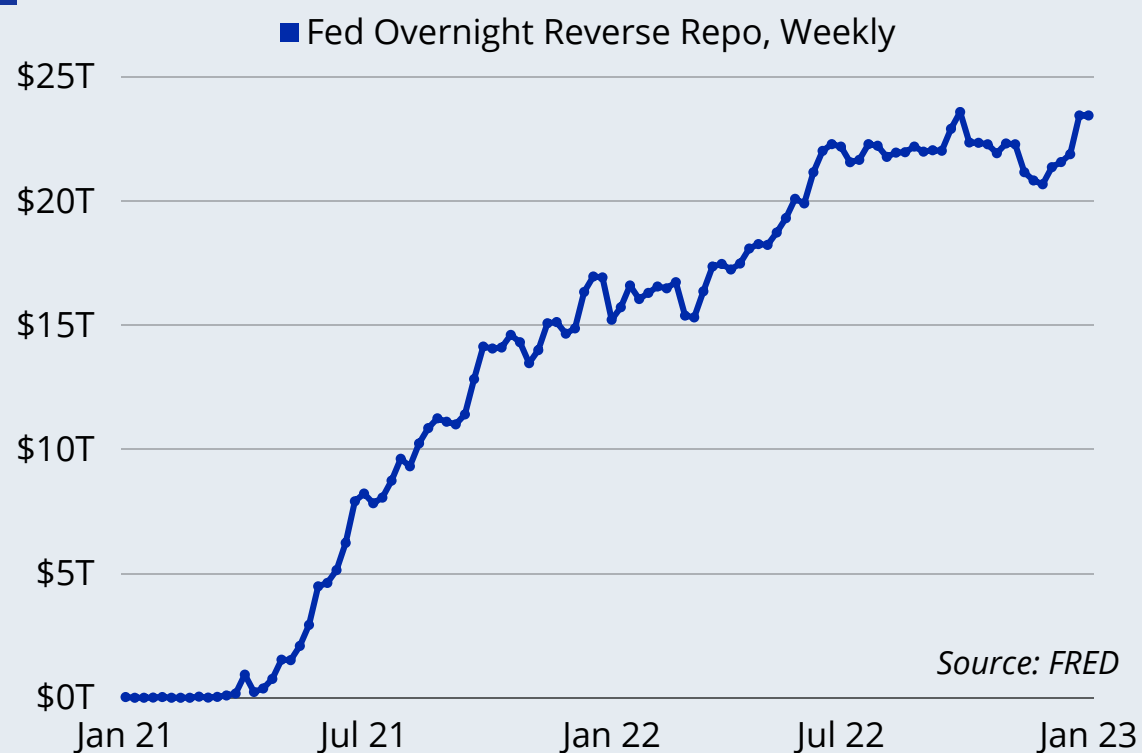
Steven McClurg, CIO  
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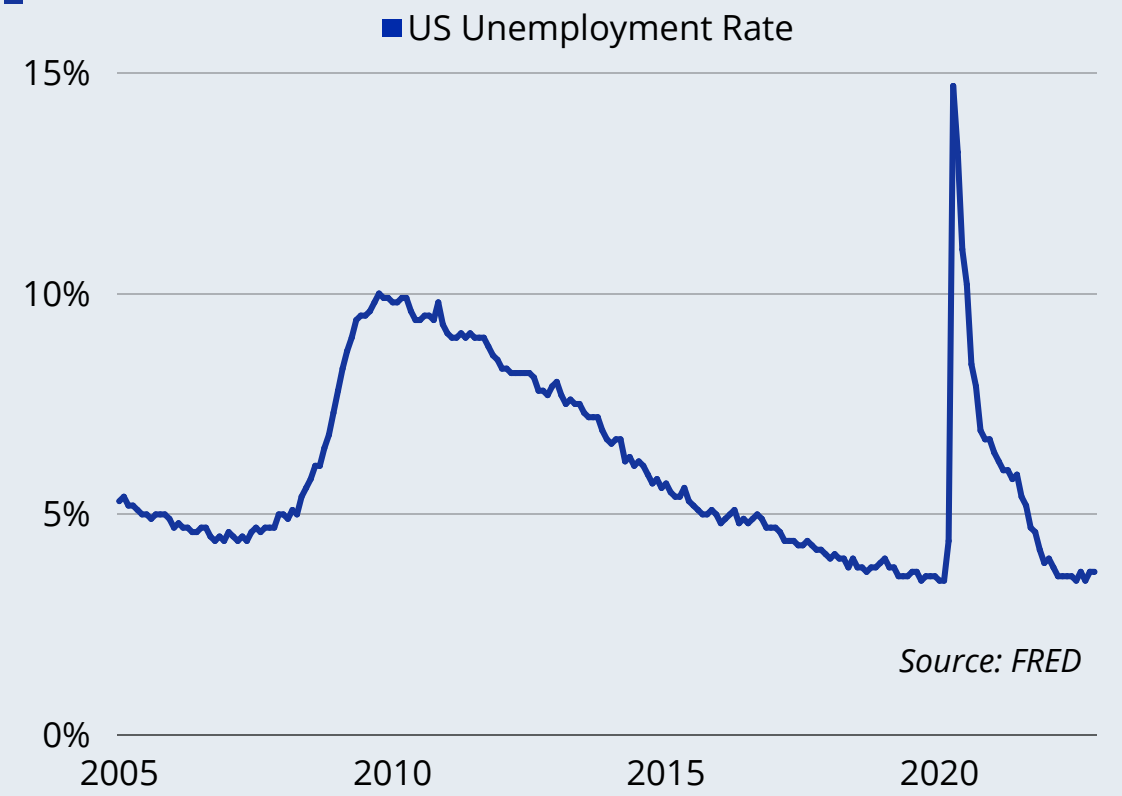
**Chart 1: YoY Inflation Projections Continue to Crash Lower**  
 CPI & inflation projections have begun to approach the terminal FFR



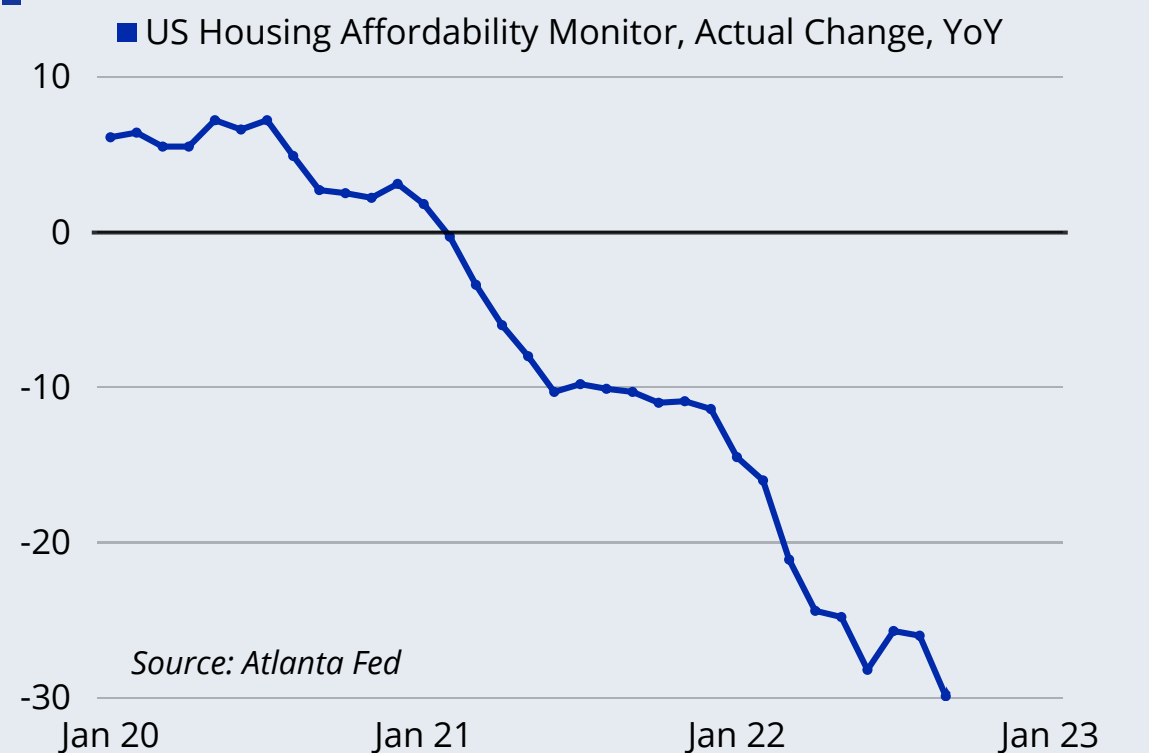
**Chart 3: Overnight Reverse Repo Has Hit a Fresh All-Time High**  
 Treasury securities sold by the Fed in temp open market operations



**Chart 2: Unemployment Holds Near Pre-Pandemic Lows**  
 Unemployment suggests an ongoing tight labor market



**Chart 4: Housing Affordability Sitting Near Multi-Decade Lows**  
 Index changes based on buyer income, interest rate, and prices



## Key Takeaways

- The Bitcoin network has operated for 14 years with nearly 100% uptime
- Miner stress may be declining, as suggested by net miner BTC balances
- Trend technicals remain bearish to neutral with ongoing risk-off sentiment

## On-Chain Commentary

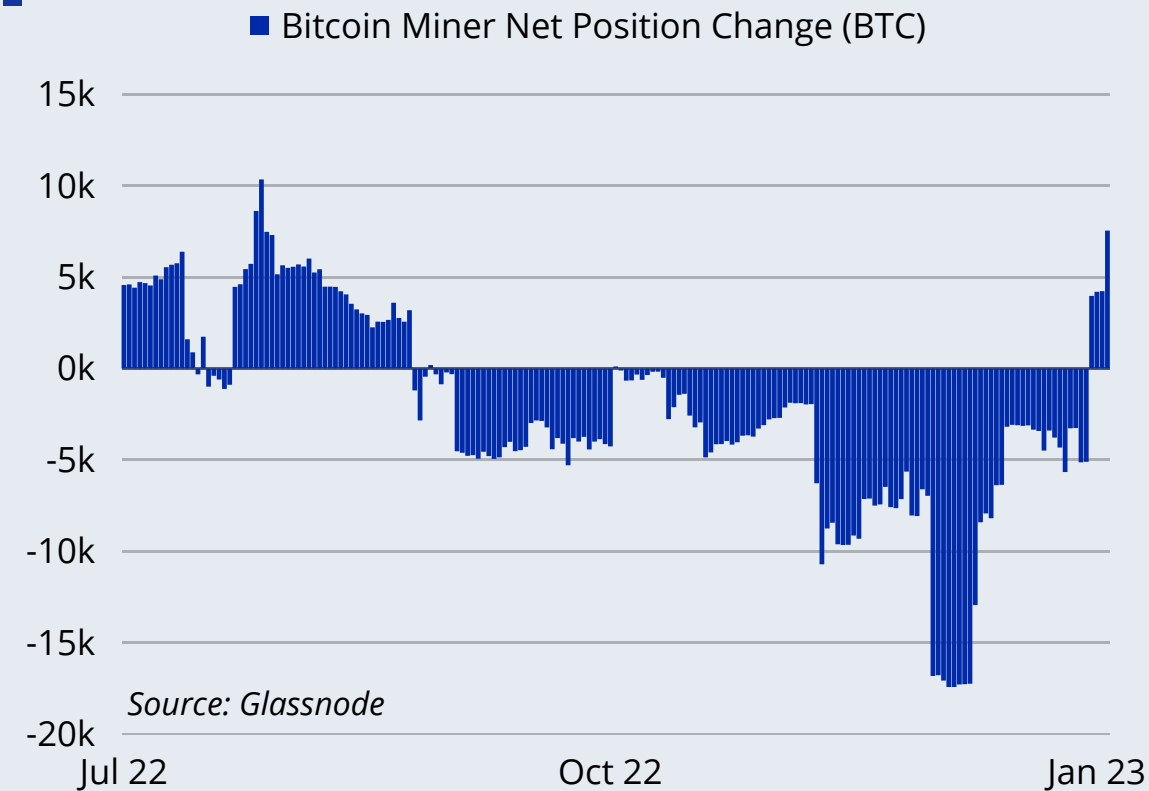
The Bitcoin network turned 14-years-old this week, maintaining 99.9% uptime since inception on January 3rd, 2009. Regardless of Bitcoin price, volatility, exchange blowups, or deleveraging events, blocks have continued to confirm approximately every 10 minutes. Miners however had a rough 2022 as mining profitability declined to record lows. As hashrate is added to the network, the block reward becomes harder and harder to obtain. Additionally, Bitcoin price declining 65% on the year severely squeezed miners further as the block reward was worth less and less. Evidence of miner stress over the past 6 months is further seen in miner BTC balances. Historically, miners have held or accumulated BTC in the good times and sold BTC in the lean times. BTC net outflows from miner related wallets reached an extreme in November but have shifted to accumulation over the past week. This may suggest miner stress has abated, at least in the near term.

From a price perspective, most trend technicals remain bearish to neutral. Price also sits within a multi-month bearish pitchfork. Trend technicals have largely remained bearish for the entirety of 2022. The good news is a trend shift will likely be cut and dry, if and when a trend shift occurs. The key resistance level stands at \$20,000, from both a technical and psychological level. As volatility continues to collapse, a significant move becomes more and more likely over the next few weeks. Since Bitcoin trading began, price has had a series of extreme volatility expansions and contractions. Now post-FTX collapse, this volatility pop will likely be no different.

Stablecoin dominance (SD), relative to non-stablecoins, can also help elucidate broader sentiment in the market. Stablecoins entered the scene in the form of Tether (USDT) in 2014, with several more launching in 2018. Stables allow for increasing transferability and convertibility of fiat currencies to cryptocurrencies, and they also can act as a potential hedge against market volatility. Over the past year, unsurprisingly, SD has continued to grow, and remains near all-time highs. SD should begin to fall if and when risk-on sentiment returns in 2023.

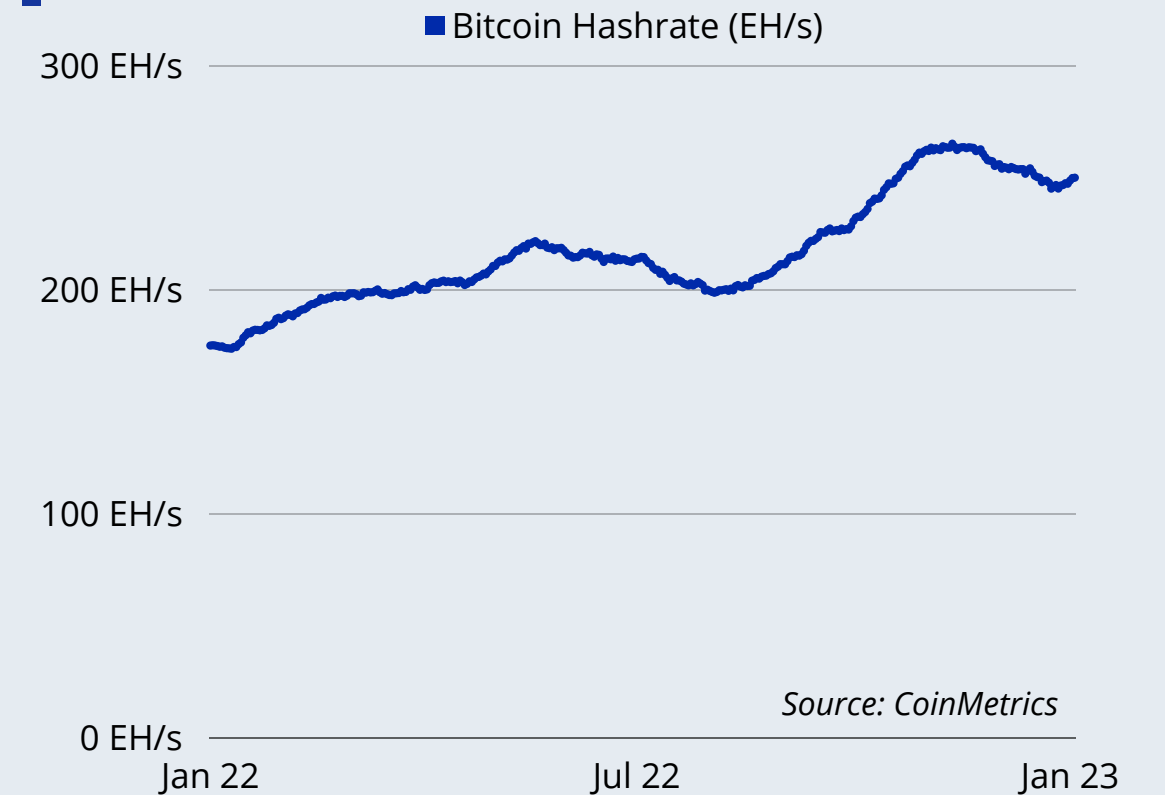
## Chart 5: Aggregate Miner Positions Suggest HODLing

Bitcoin miners have flipped from net sellers to accumulating BTC



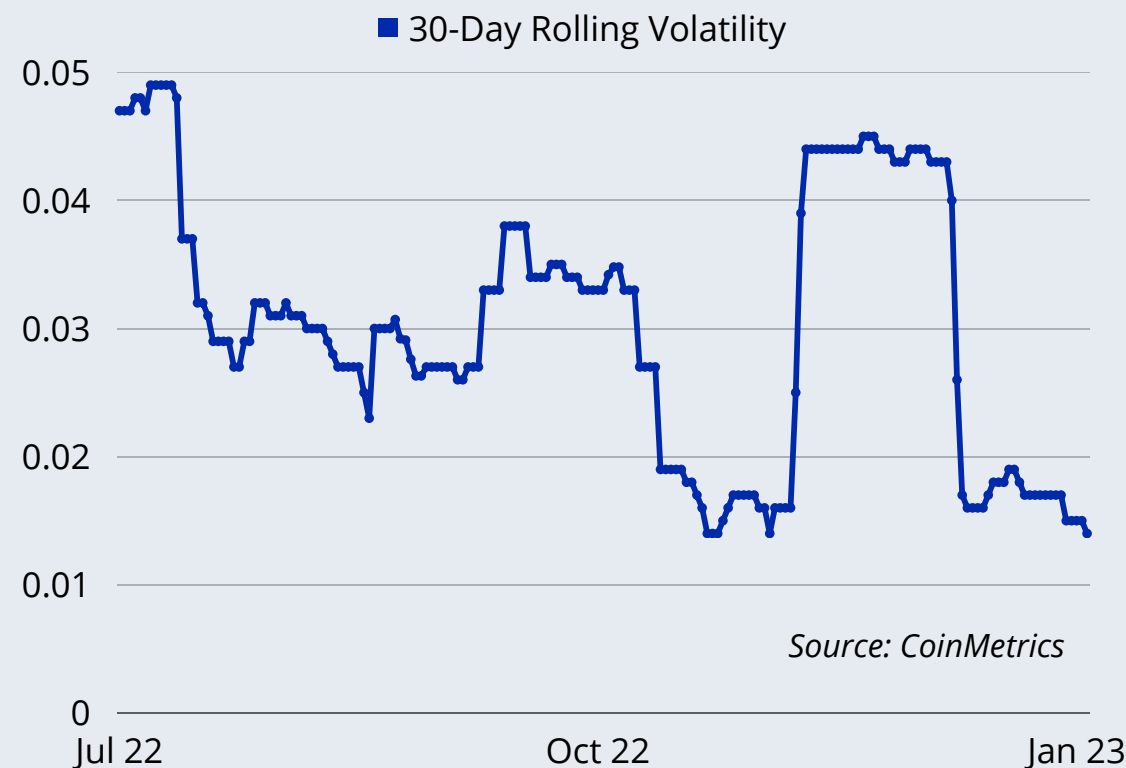
## Chart 6: Miners Continue Adding Hashrate Near Highs

Bitcoin proof-of-work hashrate, monthly average



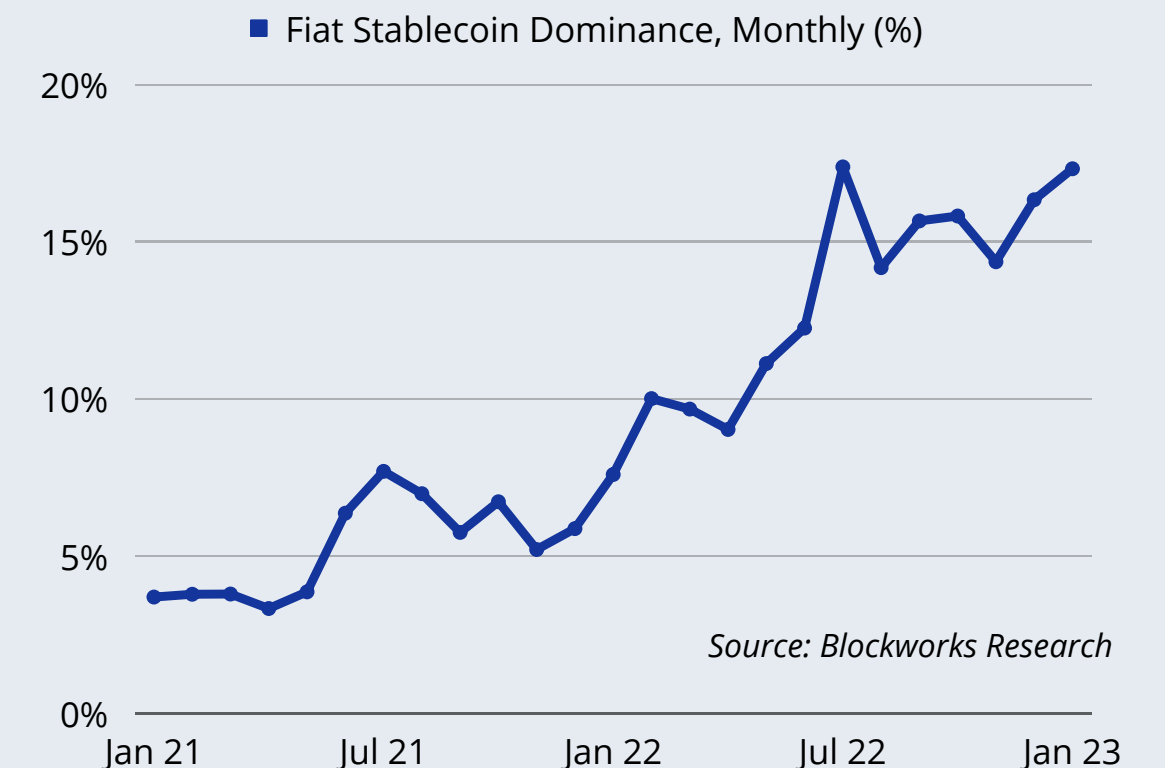
## Chart 7: Bitcoin 30-Day Rolling Volatility Grinds Lower

Bitcoin price volatility sits near historic multi-year lows



## Chart 8: Stablecoin Dominance Remains at Highs

Fiat stablecoin market cap relative to total digital asset market cap



Crypto	Ticker	Price (\$)	Returns (%)					Annualized				
			1 week	1 month	3 month	YTD	1 year	M Cap (bn)	Issuance (%)	Stake Yield (%)	Volatility	Sharpe
Bitcoin	BTC	16626.25	0.07	0.60	-18.28	0.57	-64.85	320.08	1.84	N/A	0.64	-1.32
Ethereum	ETH	1207.34	0.60	1.05	-11.36	1.01	-68.47	147.75	0.01	3.87	0.86	-0.88
Binance Coin	BNB	245.10	0.37	-0.33	-17.28	-0.41	-53.83	39.21	0.00	2.53	0.73	-0.75
Polygon	MATIC	0.77	1.84	2.11	-7.31	2.11	-69.65	6.76	2.94	6.63	1.19	-0.40
Polkadot	DOT	4.50	3.20	4.79	-30.64	4.59	-84.84	5.22	7.44	14.65	0.92	-1.57
Tron	TRX	0.06	0.69	1.22	-11.33	1.51	-29.23	5.08	2.05	3.58	0.68	-0.23
Solana	SOL	13.06	30.60	31.12	-61.71	30.99	-92.59	4.80	4.61	4.42	1.17	-1.74
Avalanche	AVAX	11.29	3.86	3.56	-35.32	3.60	-90.01	3.52	5.52	8.10	1.10	-1.53
Cosmos	ATOM	10.10	6.64	8.01	-22.47	7.97	-71.58	2.89	16.17	21.57	1.14	-0.55
Near	NEAR	1.32	3.21	4.93	-63.69	4.89	-90.86	1.11	5.16	9.62	1.22	-1.38

Valkyrie's Alt Layer 1 Index			1 week	1 month	3 month	YTD	1 year
		26.68	-5.03	-0.33	-38.27	0.18	-85.69

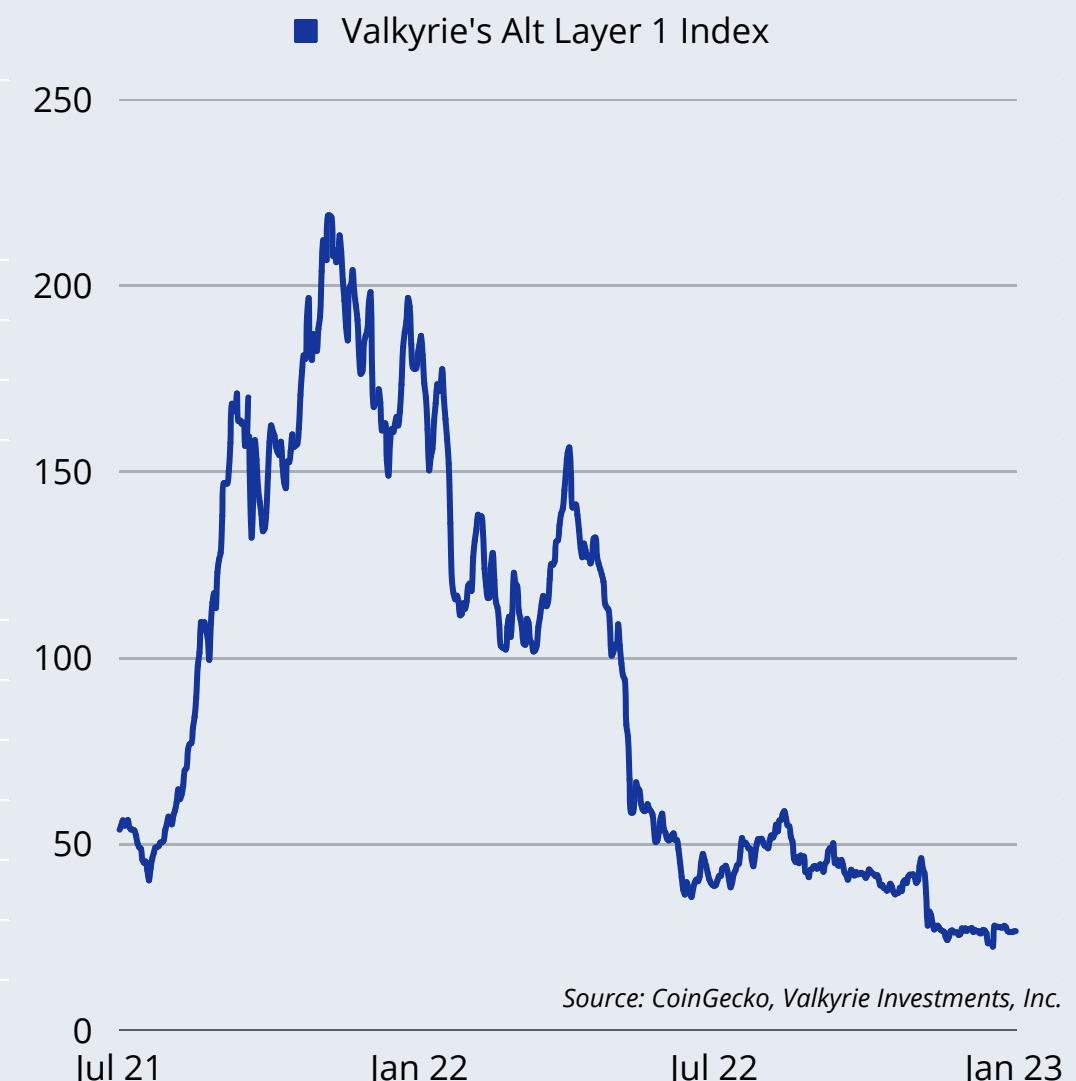
TradFi Indices			1 week	1 month	3 month	YTD	1 year
<b>S&amp;P 500</b>	SPX	3839	-0.14	-5.70	7.08	-0.14	-19.44
<b>Nasdaq 100</b>	NDX	10939	-0.42	-8.79	-0.29	-0.42	-32.97
<b>Russell 2000</b>	RUT	1761	0.02	-6.95	5.80	0.02	-21.56
<b>Dow Jones Ind.</b>	DJI	33147	-0.17	-3.73	15.39	-0.17	-8.78

Commodities			1 week	1 month	3 month	YTD	1 year
<b>Crude Oil</b>	CL1	78.52	-1.15	1.38	-5.92	-2.61	3.21
<b>Brent Crude</b>	BRN00	84.12	-0.45	1.35	-5.16	-2.14	6.64
<b>Natural Gas</b>	NG00	3.75	-26.77	-33.27	-42.38	-7.91	2.40
<b>Unleaded Gas</b>	RB00	2.41	1.46	8.67	-4.23	-3.67	6.93
<b>Gold</b>	GC00	1846.60	2.25	3.66	8.09	0.91	2.53
<b>Copper</b>	HG00	3.82	0.31	0.95	11.94	0.12	-13.53
<b>Wheat</b>	W00	791.75	2.23	6.99	-13.21	0.09	4.45

Bloomberg Commodity Index			1 week	1 month	3 month	YTD	1 year
	BCOM	112.09	-0.42	0.90	-0.55	-0.60	12.73



## News Review

- [U.S. Regulators: Banks Should Approach Crypto With Heightened Caution](#)
- [IRS Sees Crypto Companies as Potential Crime-Fighting Partners](#)
- [Valkyrie Unveils Proposal for Grayscale's Troubled Bitcoin Trust \(GBTC\)](#)
- [Winklevoss Say Genesis Engaging in "Bad Faith Stall Tactics"](#)
- [Grayscale Ethereum Trust \(ETHE\) Trades at Record 60% Low Against Ethereum](#)
- [MicroStrategy Sells Off Bitcoin for First Time—Then Buys Even More](#)
- [Ukrainian Pharmacies Enable Crypto Payments via Binance Pay](#)
- [Bitcoin Miner Argo Soars on Deal to Sell Facility to Galaxy](#)
- [Coinbase Reaches \\$100 Million Settlement With New York Regulators](#)
- [Companies and Investors May Need to Return Billions in Funds Paid by FTX](#)
- [Sam Bankman-Fried Pleads Not Guilty in FTX Fraud Case](#)
- [Former SEC Chairman Jay Clayton Breaks Down Questions Around Sam Bankman-Fried Criminal Case](#)
- [Mango Markets Exploiter Avi Eisenberg Committed Fraud, Feds Say](#)





# Weekly Market Review - January 3rd, 2023

Traditional Market Commentary, On-Chain Commentary: Source: Valkyrie Investments, Inc.

Chart 1: YoY Inflation Projections Continue to Crash Lower: Source: Valkyrie Investments, Inc., FRED, Truflation.com, CME

Chart 2: Unemployment Holds Near Pre-Pandemic Lows & Chart 3: Overnight Reverse Repo Has Hit a Fresh All-Time High: Source: Valkyrie Investments, Inc., FRED

Chart 4: Housing Affordability Sitting Near Multi-Decade Lows: Source: Valkyrie Investments, Inc., Atlanta Fed

Chart 5: Aggregate Miner Positions Suggest HODLing: Source: Valkyrie Investments, Inc., Glassnode

Chart 6: Miners Continue Adding Hashrate Near Highs & Chart 7: Bitcoin 30-Day Rolling Volatility Grinds Lower: Source: Valkyrie Investments, Inc., CoinMetrics

Chart 8: Stablecoin Dominance Remains Near Highs: Source: Valkyrie Investments, Inc., Blockworks Research  
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

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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.

"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.

Valkyrie's Alternative Layer 1 Index: Source: Valkyrie Investments, Inc., CoinGecko. Includes Layer 1 protocols traded on at least 2 of the following 4 U.S. exchanges: Coinbase, Gemini, Kraken, or Binance US. Excludes BTC, ETH, stablecoins, and exchange tokens. Weightings using year 2020 MCAP (FDV), value struck at 8PM EST daily, rebalanced quarterly.

**Past performance is not indicative of future results. Investments may be speculative, illiquid and there is a risk of total loss.** There is no guarantee that any specific outcome will be achieved. There is no guarantee that any specific outcome will be achieved. This is not an offer to buy or sell securities. We do not offer legal, tax or financial advice. Information is purported to be as of the time period provided therein. Charts/graphs are for illustrative purposes only.

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