DECEMBER 2020

BITCOIN OUTLOOK

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Preface

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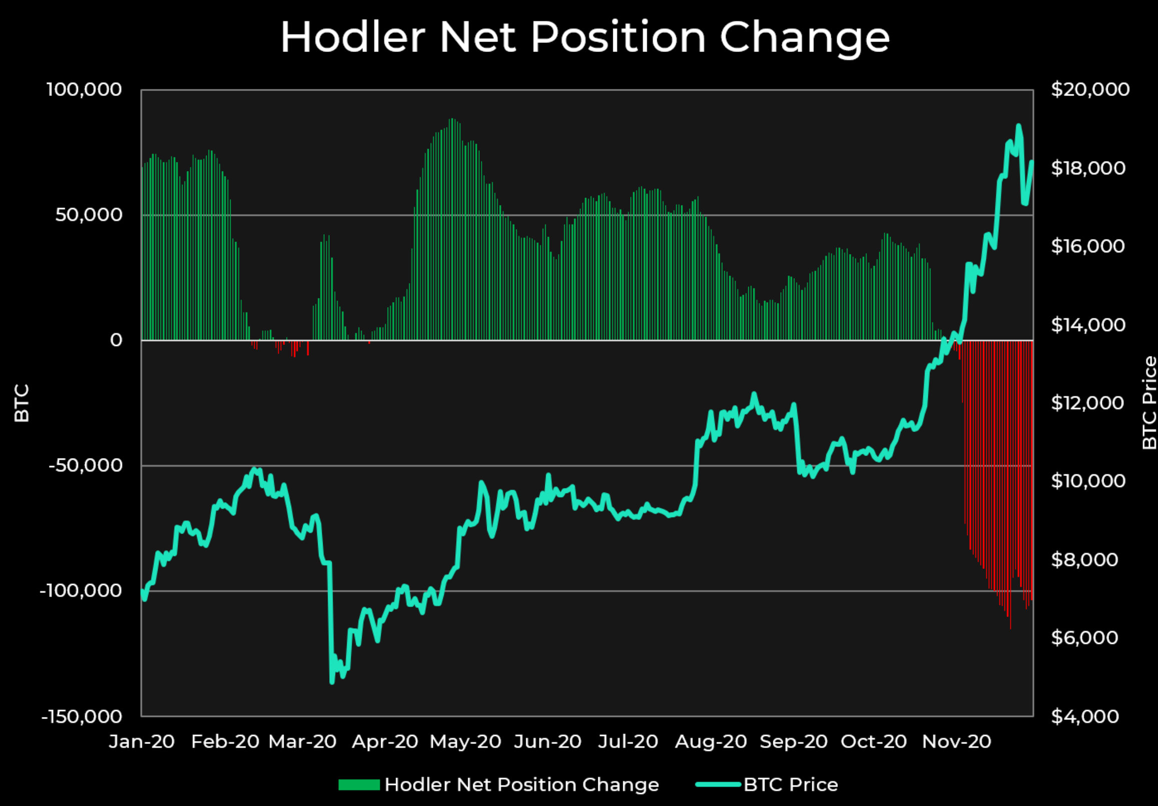
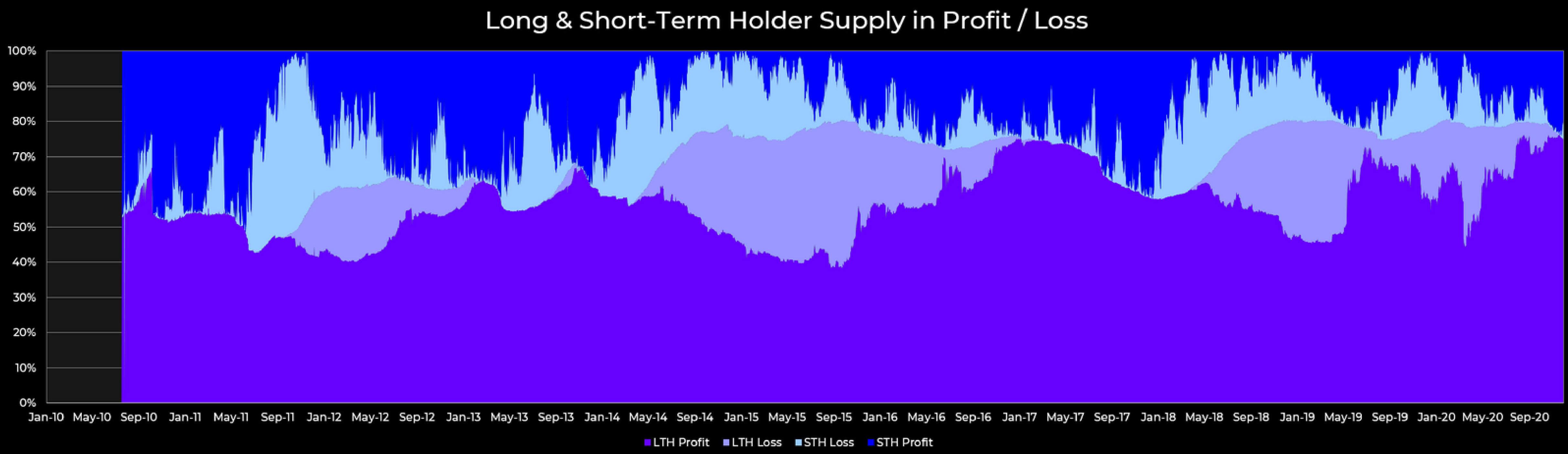
After 1,081 days of waiting, Bitcoin finally reached a new all time high of $19,832. While market sentiment towards BTC certainly feels bullish at the moment, some individuals on Twitter were airing on the side of caution after realizing that long term holders had recently moved and / or sold large quantities of BTC. As you can see in the chart to the right, after consistently accumulating more BTC throughout this year, the month of November had significant outflows. Is this cause for concern or affirmation of a new bullish cycle? Based on the data we're about to walk through, I'm inclined to lean towards the latter. As you can see in the chart below, we're at a point in time where almost every single holder of BTC is in profit, particularly those who have held for a long time. It's only natural that, in this type of situation, people would start taking profits. However, if we zoom out and analyze patterns found in multi-year boom and bust cycles, this type of selling may be the indicator our team has been waiting for over the course of 2 years.





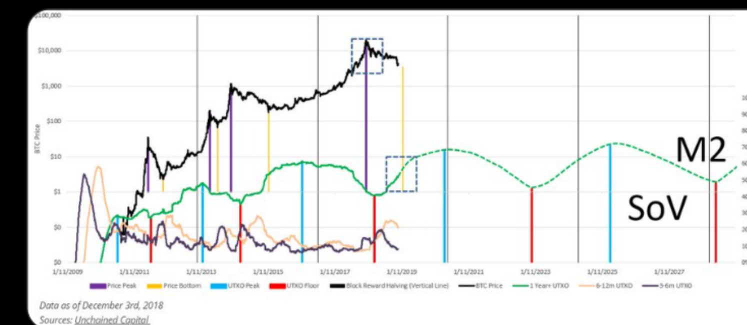
Source: Glassnode

Forecasting Market Cycles

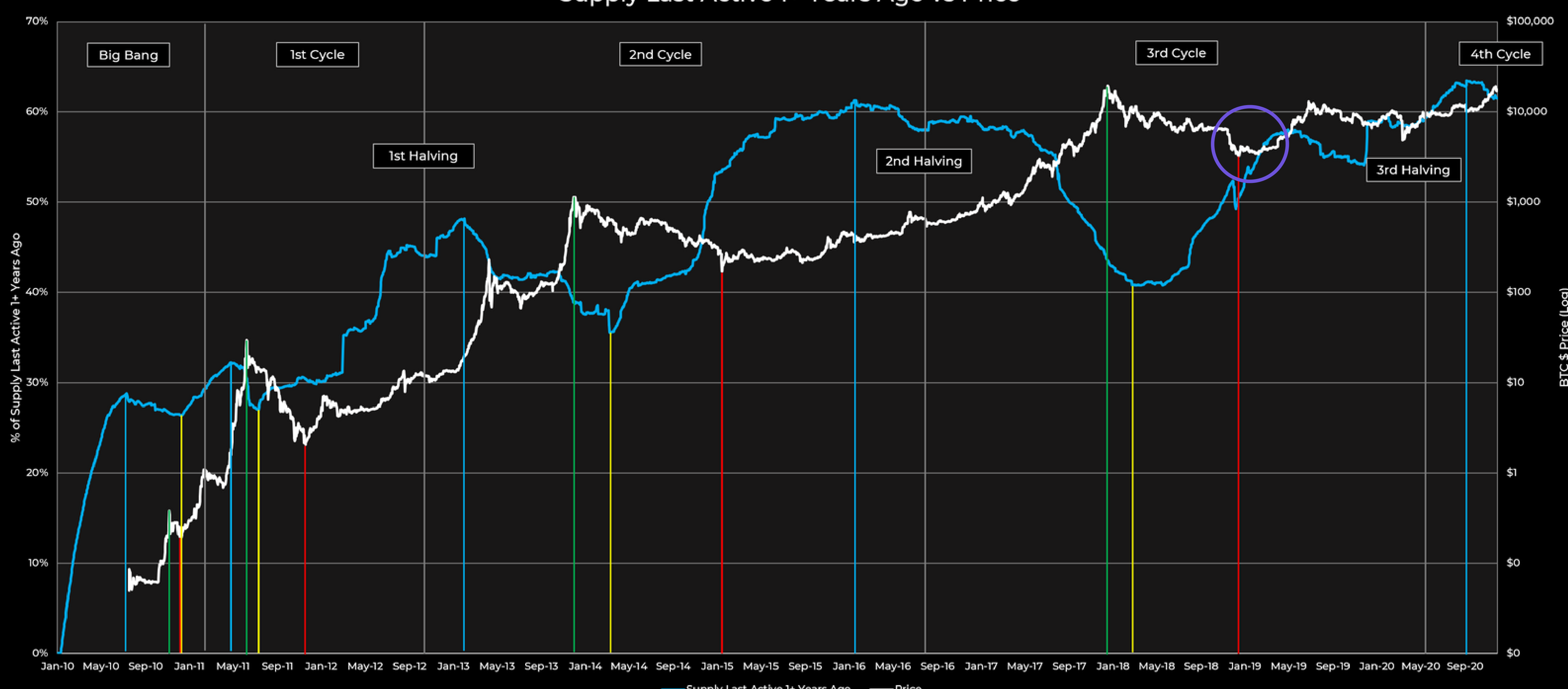
In our first Bitcoin report from December 2018, we analyzed historical holder activity and market cycles to forecast that the price of BTC would bottom by Q1 2019. At the end of 2018's brutal bear market, BTC finally hit a max drawdown of $3,237 just 5 days after our report on December 15th and then proceeded to trade sideways throughout Q1 2019 before resurging. We've highlighted this point in time with a purple circle in the chart below. As the old adage goes - "history doesn't repeat itself, but it often rhymes". The data is once again starting to mirror the past. Let's dive into what that could mean for BTC over the coming months and years.

Delphi Digital @Delphi_Digital · Dec 10, 2018

6/ In the near-term, recent trends in #bitcoin holder activity coupled with the rapid decline in price suggests a bottom is more likely to form in Q1 2019, barring any major fundamental changes (our analysis builds off extensive work and data provided by @unchainedcap).



Supply Last Active 1+ Years Ago vs Price



Source: Glassnode

Analyzing Historical Patterns

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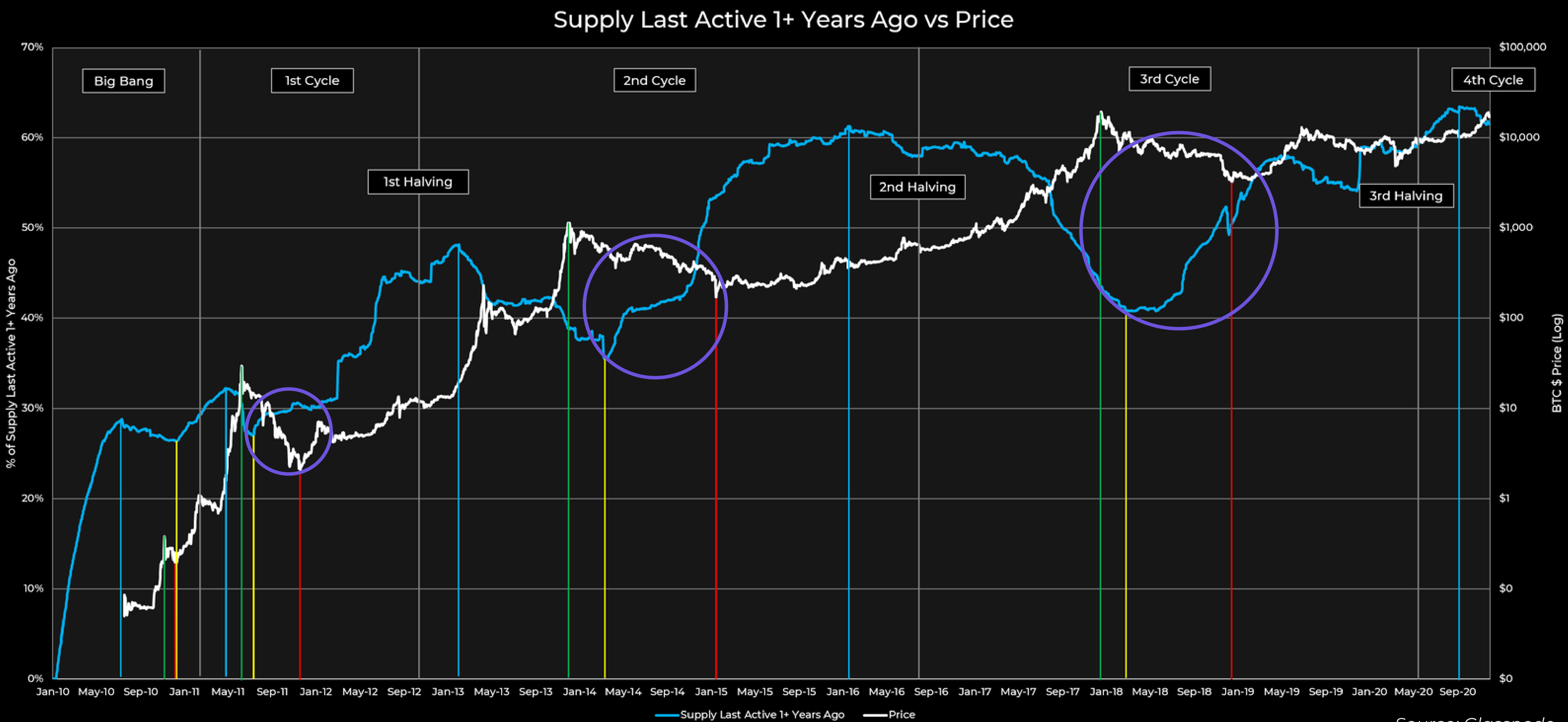
Let's start by explaining what the chart below is illustrating. The light blue line represents the % of Supply Last Active 1+ Years Ago and the white line is the BTC price. When the blue line rises, long-term holders are accumulating BTC. When the blue line falls, long-term holders are selling. While selling pressure is intuitively bad for price, what you'll find studying history is that long-term holders on aggregate don't sell during bear markets, rather that's when they accumulate. The yellow bar in the chart represents the UTXO Floor for % of Supply Last Active 1+ Years Ago and the red bar represents the BTC Price Max Drawdown for that cycle. The purple circles below highlight the time periods between when the yellow bar is first hit until the subsequent red bar appears. As you can see, the % of Supply Last Active 1+ Years Ago rises while the BTC price falls in each of these cyclical periods.



Source: Glassnode

Analyzing Historical Patterns

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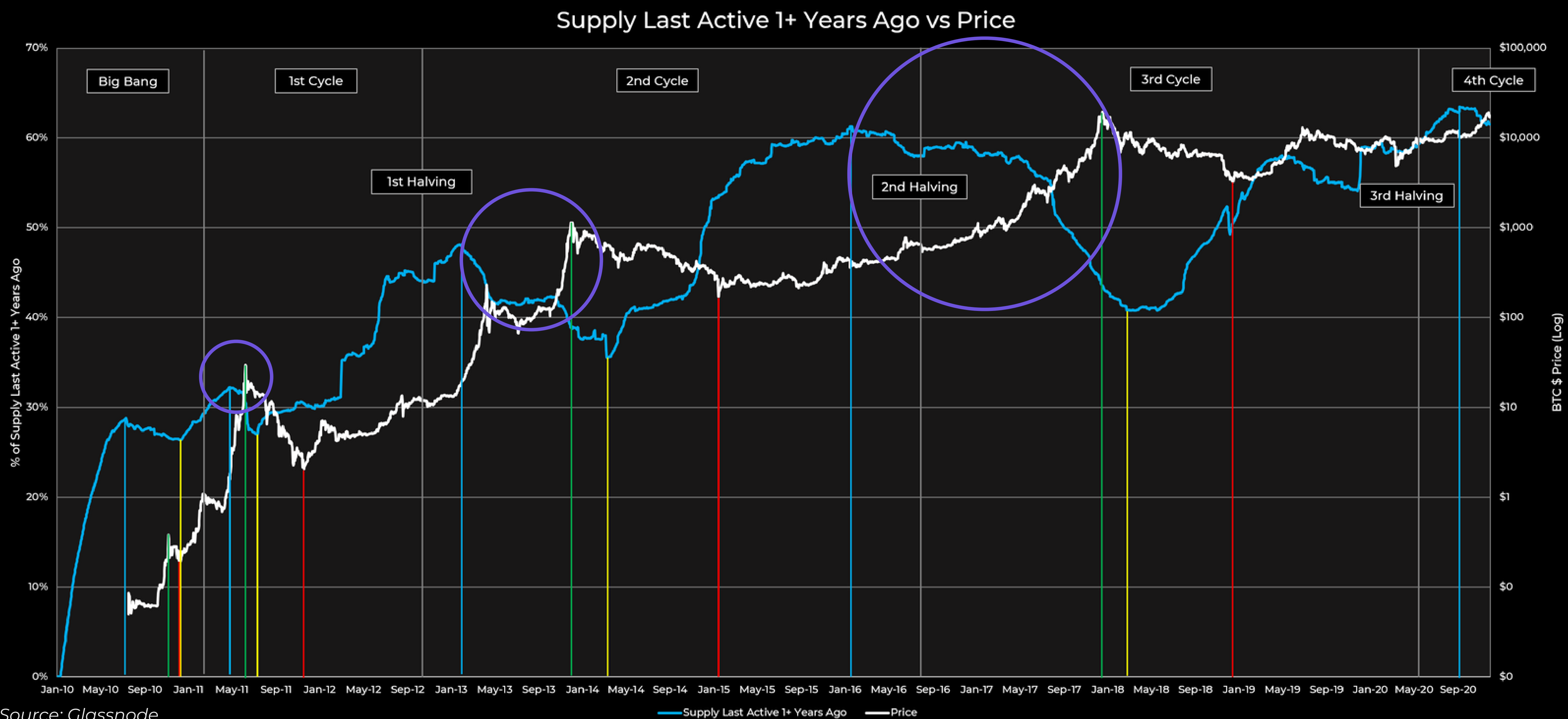
While the yellow bar to red bar time periods are historically bearish, the inverse is true between the blue bar and green bar periods. These have proven to be incredibly bullish as shown by the purple circles below. The blue bar represents the UTXO Peak for % of Supply Last Active 1+ Years Ago and the green bar represents the BTC Price All Time High for that cycle.

If you study the chart closely, you'll see a pattern start to emerge. Blue, green, yellow red. We reach the UTXO Peak as long-term holders accumulate through the bear market. After the supply has moved into stronger hands, the markets strengthen and a new BTC Price All Time High is reached. Long term holders start taking profits and sell into the buy pressure coming from new entrants to the market, which reduces price and brings us to the UTXO Floor. Once the UTXO Floor is hit, short term holders with weaker hands capitulate from their fear and continue selling. Long term holders once again start accumulating as the BTC Price Max Drawdown approaches.



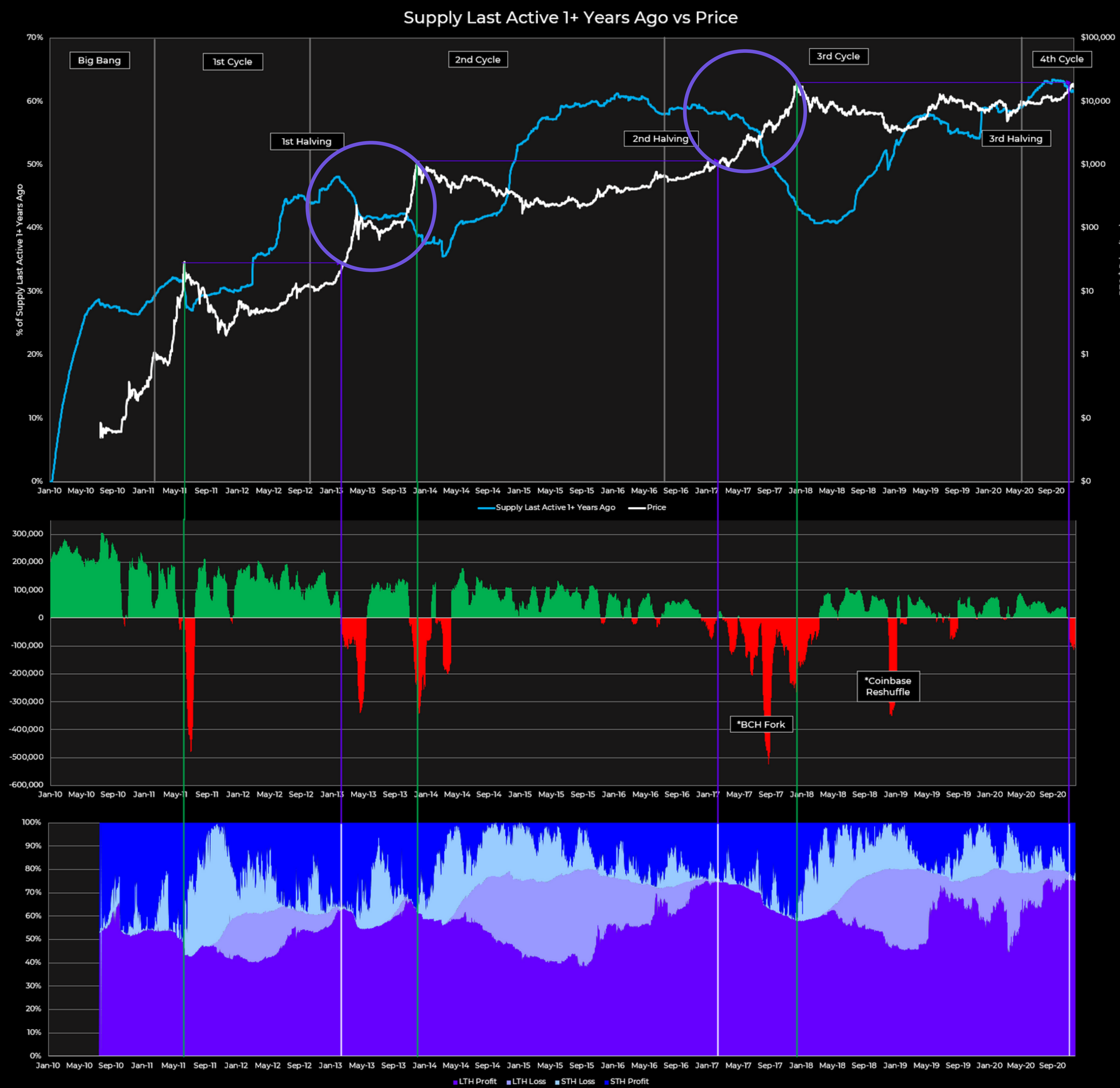
Source: Glassnode

Profit Taking Patterns

To the right, we've lined up the three charts we've shown thus far to illustrate these cycles a different way. As a refresher, the middle chart is hodler net position change and the bottom chart is the proportion which long term and short term holders are in profit or loss over time.

We can see that the new BTC Price All Time High each cycle leads to significant outflows from holders, which makes sense considering virtually everyone is in profit at that point in time. These outflows dissipate until the Previous BTC Price All Time High is reached, annotated by the purple bars. This once again brings everyone back into profitability, triggering more outflows.

Given that we just broke through the previous all time high, the outflows we're currently seeing match up with the historical trend. A trend which has shown to be bullish for price, as shown by the purple circles. Mathematically speaking, of course, you need to hit the previous all time high before you can reach the next one. What matters now is whether or not we've truly hit the UTXO Peak.



Source: Glassnode

Peaks & Slopes

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In the table to the right, we demonstrate how important the UTXO Peak for Supply Last Active 1+ Years Ago is by showing BTC returns at various intervals following its occurrence. It may seem counterintuitive that long-term holders moving / selling their BTC would be a positive indicator. If we view it from another angle, however, they're selling because there's market demand at the higher price levels which they've accumulated more BTC in anticipation of, and waited for. We define the start of each cycle as the day when the UTXO Peak was reached. While the second and fourth peaks happened after a halving, the third peak was unique in that it took place before a halving. Regardless, this doesn't break the blue, green, yellow and red pattern we've watched for.

In our initial UTXO analysis from December 2018, we used the Δ of the UTXO percentages and days between floor and peak to calculate slopes. Using the second cycle as an example, the % of UTXO 1 year+ grew from 27.03% to 48.16% from floor to peak. The net value of 21.13% is our "rise". The # of days between floor and peak was 573 days which is our "run". By taking the rise divided by the run, we arrived at a slope, as shown by the formulas to the right. While the slope from the first cycle was close to the others, we prioritized the second and third cycle slopes since the market was more mature at those times. As you can see, the slopes for the second and third cycles were nearly identical. At that point in time, we also knew the UTXO floor had already happened on 4/26/2018. While we used this data to accurately call the timing of the cycle's price bottom, our forecasts predicted that the next UTXO Peak would happen around April 2020. We would have to be patient a little longer, however, as the presumed UTXO Peak didn't occur until September 5, 2020.

Performance After UTXO Peak	7D	30D	90D	180D	365D
First Cycle	90%	355%	758%	57%	207%
Second Cycle	6%	67%	471%	373%	3825%
Third Cycle	2%	8%	11%	72%	135%
Fourth Cycle	3%	6%	89%	??	??

Cycle	Marker	Date	# of Days Between	UTXO 1year+	Δ UTXO 1year+	Price
First	UTXO Floor	12/9/2010	136	26.35%	5.88%	$0.19
	UTXO Peak	4/24/2011		32.23%		$1.63
Second	UTXO Floor	7/8/2011	573	27.03%	21.13%	$14.31
	UTXO Peak	1/31/2013		48.16%		$20.46
Third	UTXO Floor	3/11/2014	678	35.52%	25.76%	$635
	UTXO Peak	1/18/2016		61.28%		$385
Fourth	UTXO Floor	4/26/2018	863	40.92%	22.53%	$9,281
	UTXO Peak	9/5/2020		63.45%		$10,170

First Cycle: $\frac{(32.23\% - 26.35\%)}{4/24/2011 - 12/9/2010} = \frac{5.88\%}{136} = 0.00043235$

Second Cycle: $\frac{(48.16\% - 27.03\%)}{(1/31/2013 - 7/8/2011)} = \frac{21.13\%}{573} = 0.00036876$

Third Cycle: $\frac{(61.28\% - 35.52\%)}{(1/18/2016 - 3/11/2014)} = \frac{25.76\%}{678} = 0.00037999$

= Average Slope 0.000374373

Expected Fourth Cycle: $\frac{(67.68\% - 40.92\%)}{0.000374373} = \frac{26.76\%}{0.000374373} = 715 \text{ Days}$ = Expected UTXO Peak 4/10/2020

Fourth Cycle: $\frac{(63.45\% - 40.92\%)}{9/5/2020 - 4/26/2018} = \frac{22.53\%}{863} = 0.000261112$

Source: Glassnode

Levered Bulls Face Liquidation

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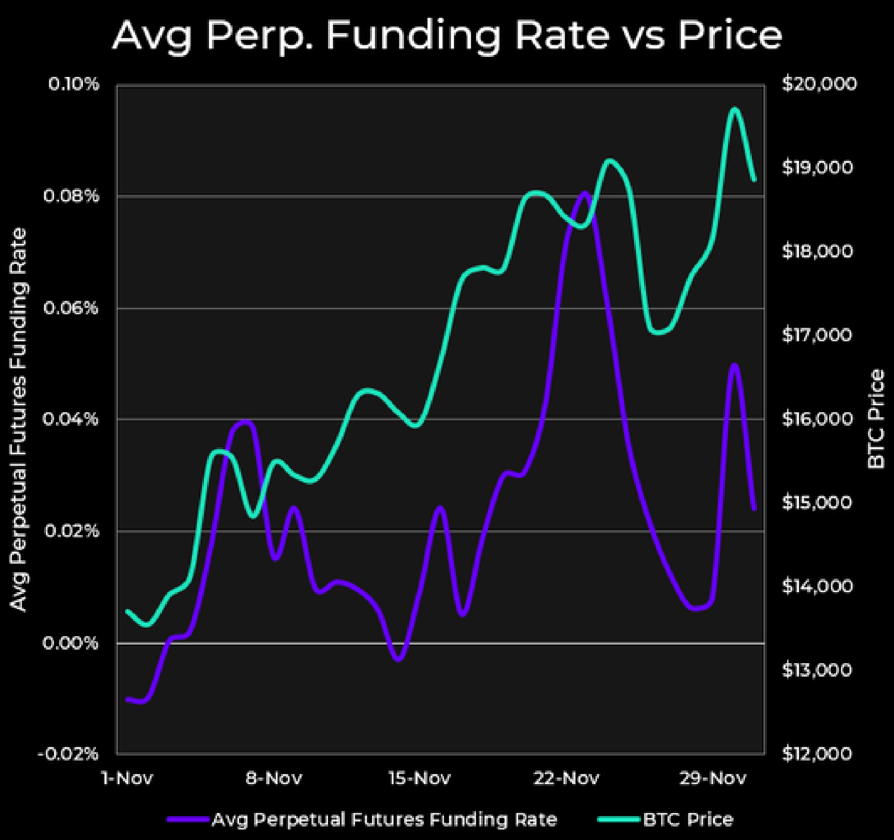
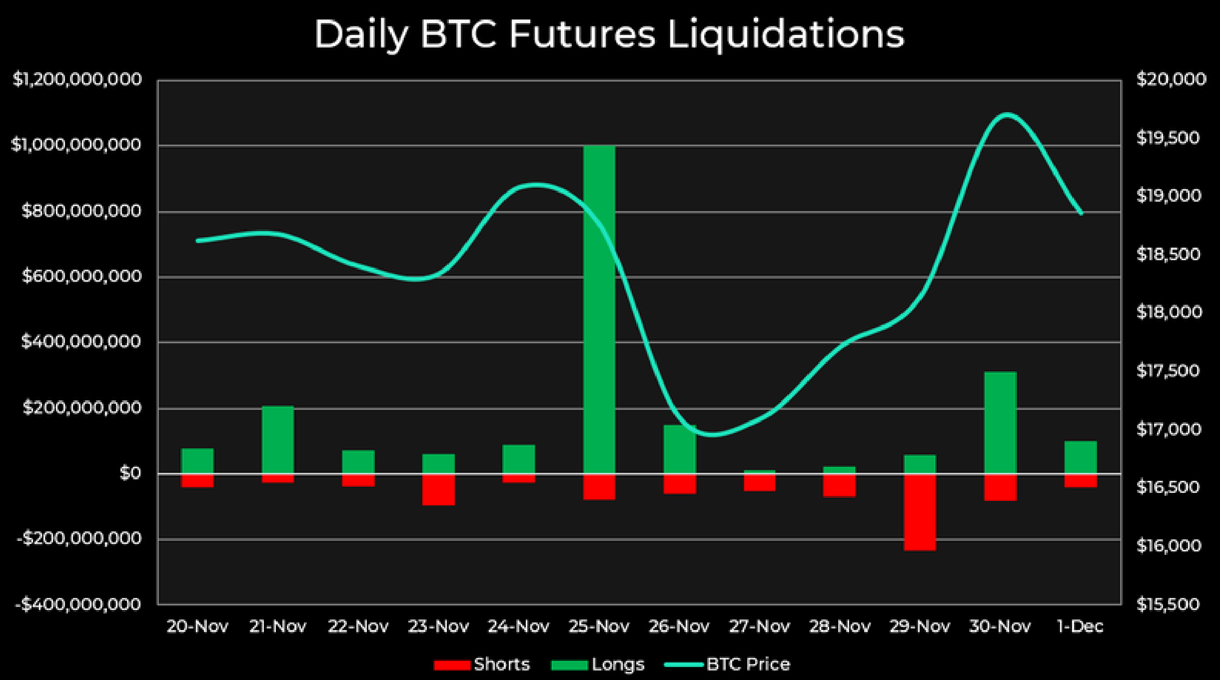
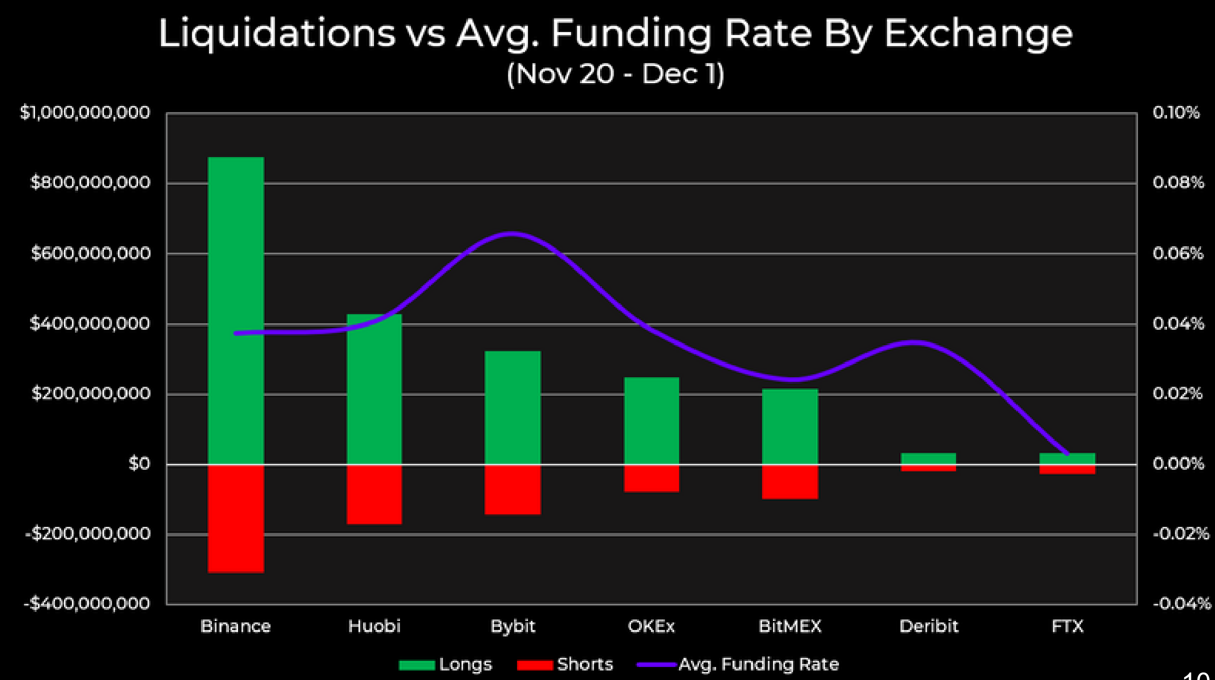
Is this the start of a new bull cycle? While we could keep trying to read the UTXO tea leaves for answers, there are plenty of other datasets we can look to for insights. **The Bitcoin futures market, for example, is coming off its best month of volume in history.** It's worth noting that, as price started to approach its previous ATH towards the end of November, overzealous bulls found themselves in a precarious predicament. In the chart to the right, you can see the average funding rate for perpetual futures across exchanges weighted by their respective open interest levels. When the funding rate is positive, longs pay shorts. When the funding rate is negative, shorts pay longs. The spike in the funding rate indicates an increased imbalance between longs relative to shorts. As is so often the case in these markets, levered perp longs with inadequate margin posted were wiped out by a quick downturn, resulting in cascading liquidations. If you were hiding from relatives on Thanksgiving that you convinced to buy BTC then this is partially why. Perhaps you'll be able to show your face again soon though. As seen in the chart to the right, the average funding rate and BTC price have both returned to higher levels following the pullback.







Source: Glassnode, bybt.com

Futures OI & Volume

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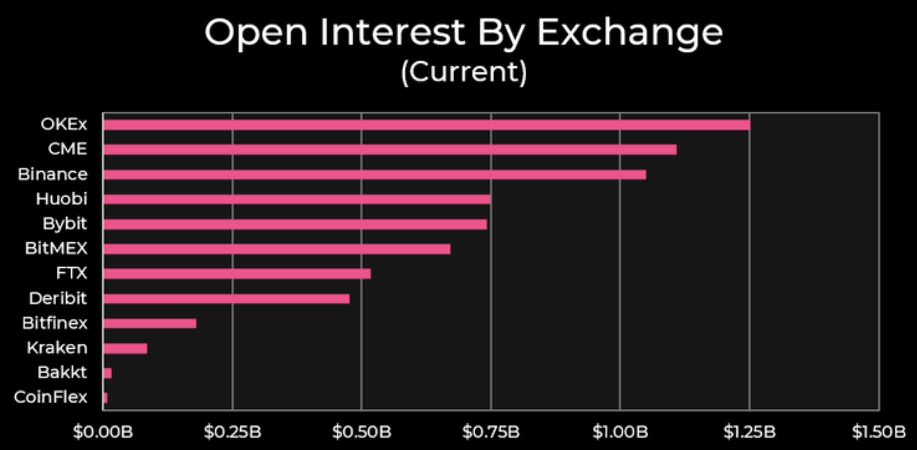
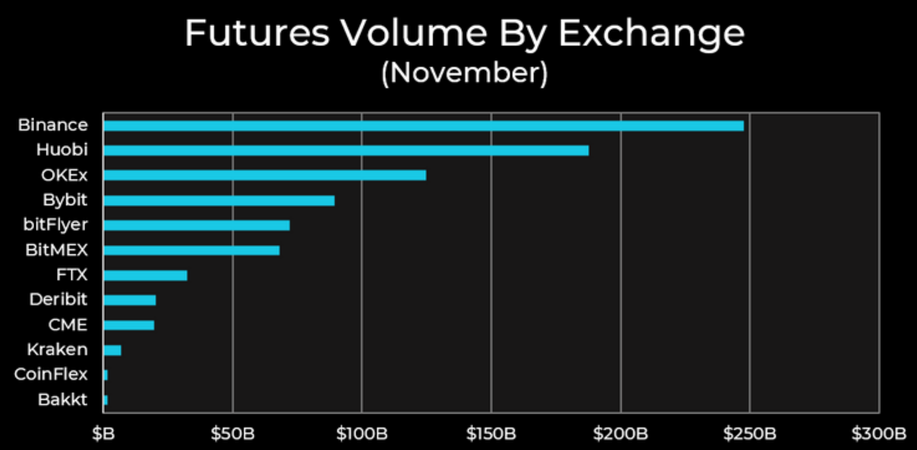
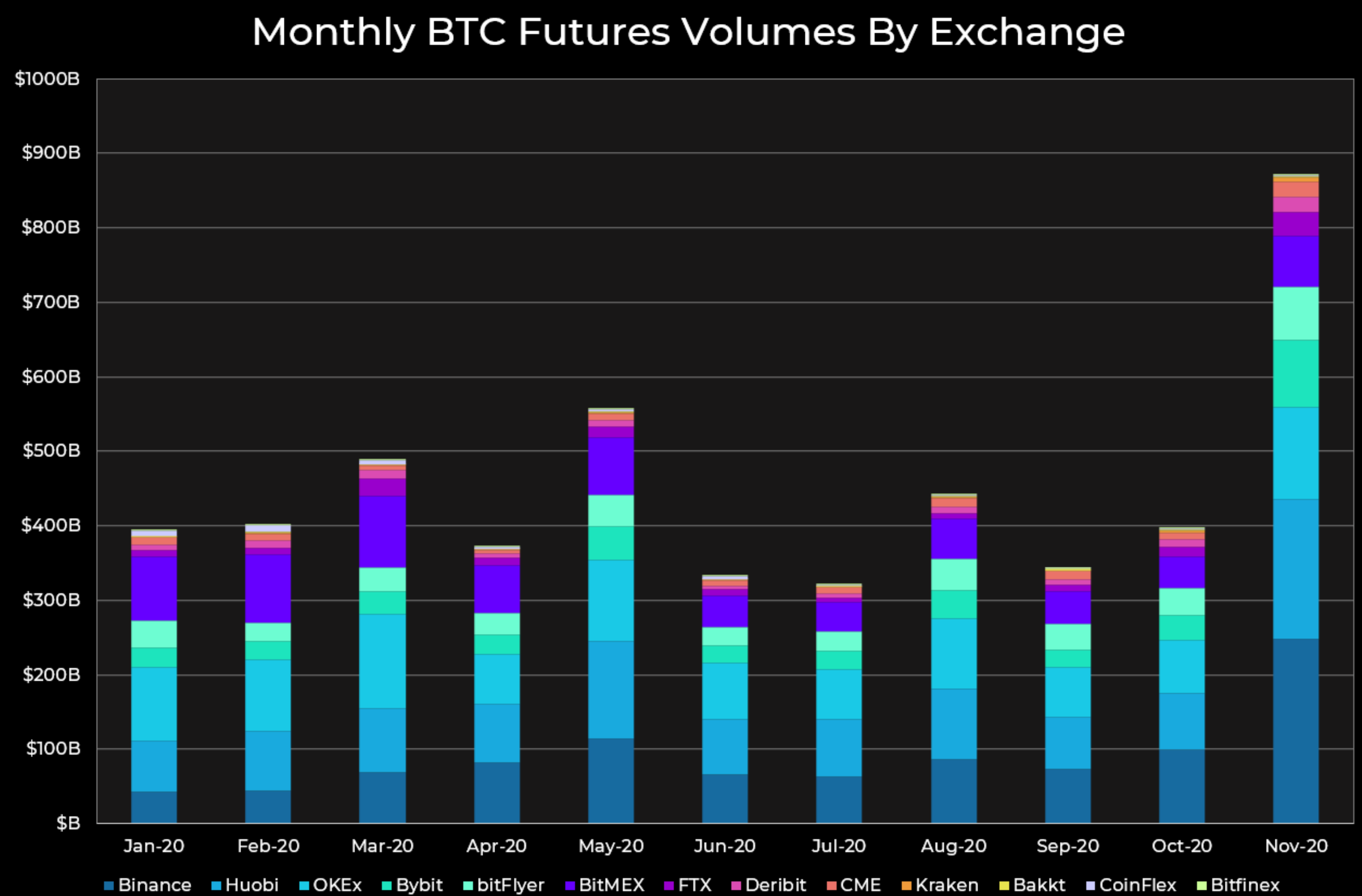
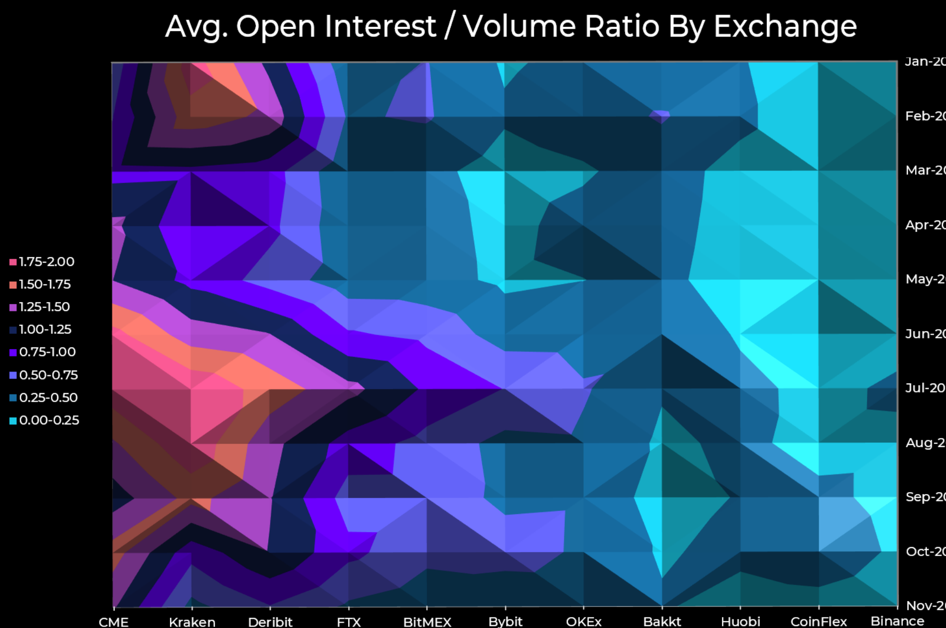
As the charts on the previous slide show, Binance was the exchange with the most liquidations during the late November pullback by far. In only two days, from November 25-26, Binance saw $488m of long BTC positions liquidated, more than double the second closest exchange, Huobi, which saw $234m. Binance has become the dominant player in BTC futures over the course of 2020, increasing its market share from 11% back in January to 28% in November, when measured by volume. In terms of open interest, however, OKEx and CME currently hold the top spots. In the bottom right, we've charted the ratio of each exchange's open interest to volume over time to provide added context.







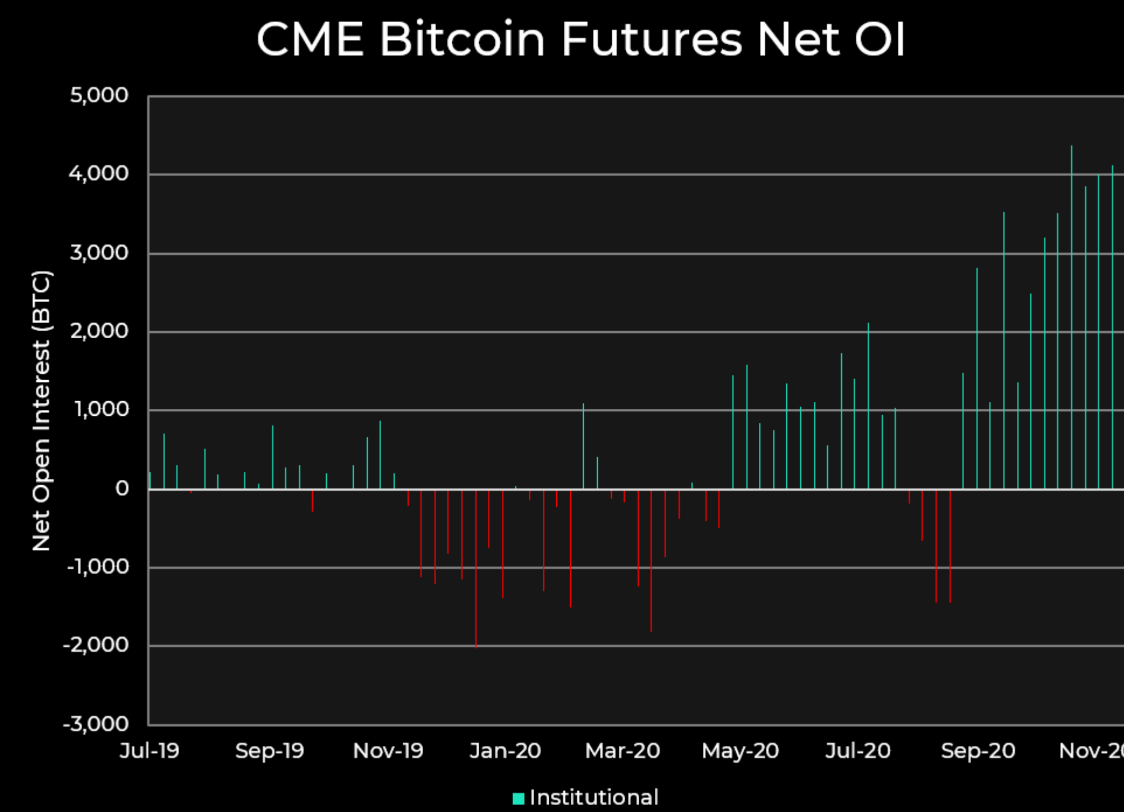


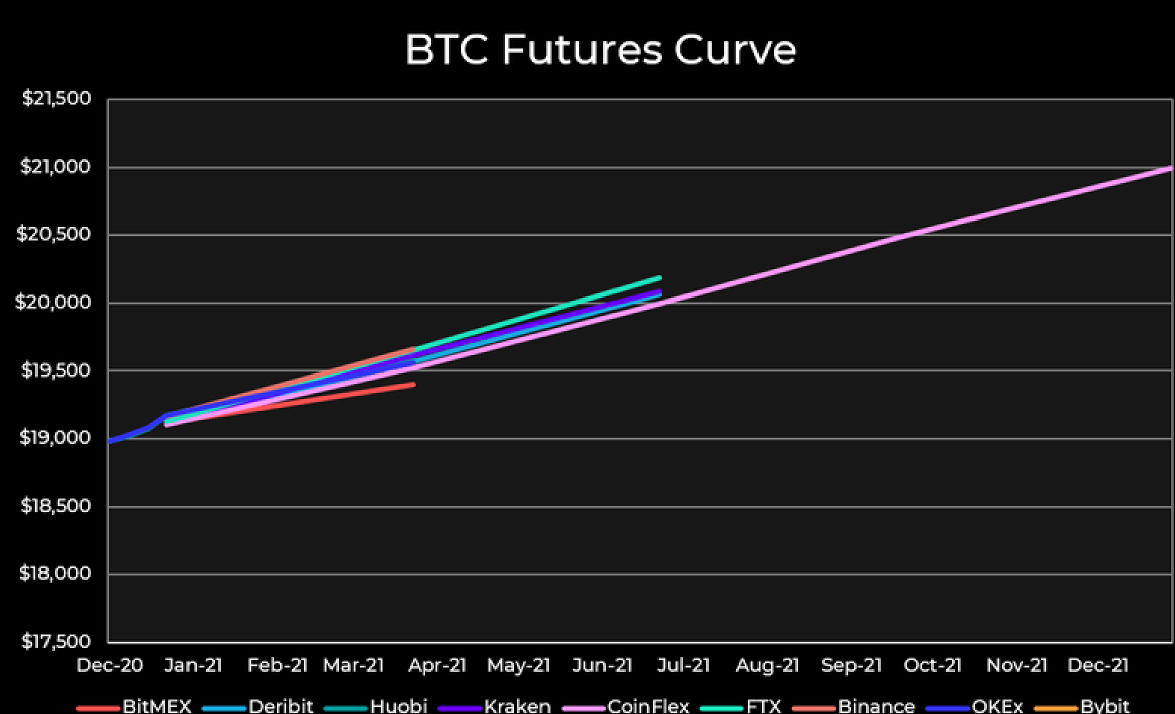
Source: Skew

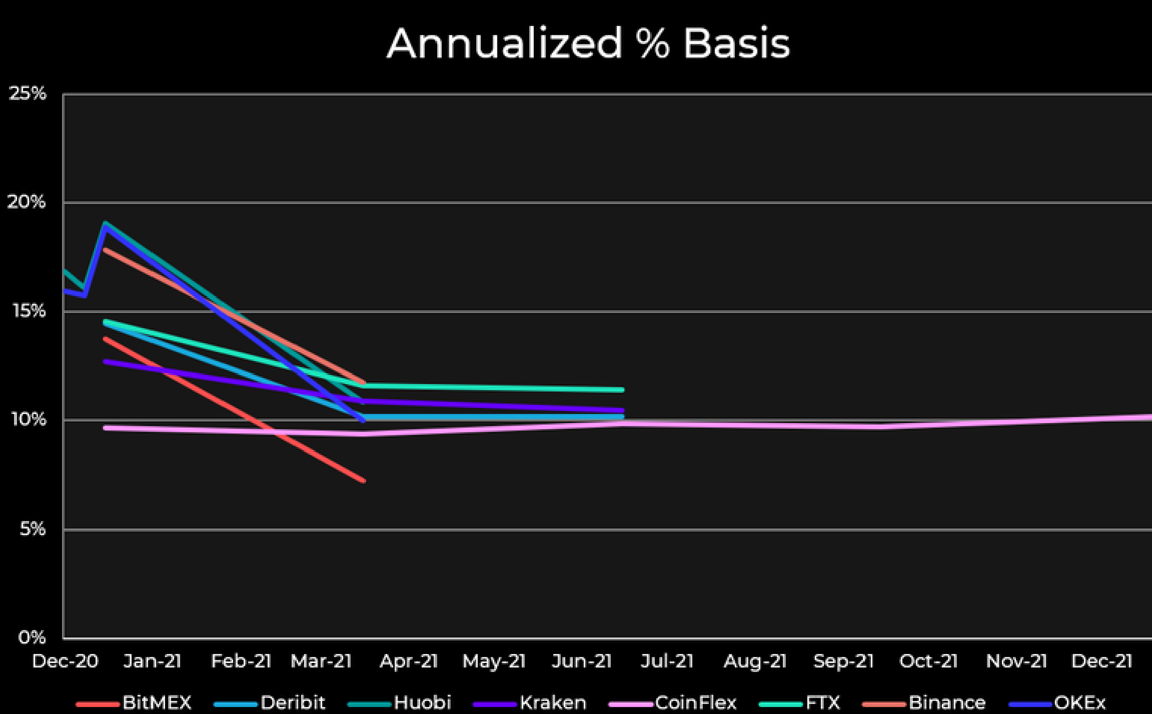
Futures Curve in Contango

CME is of particular importance given its comfortable position with regulators and client base which skews more towards traditional financial institutions. **In the chart to the right, we can see that those Institutional investors have not only turned net long since September but also the magnitude of their net exposure, measured in BTC, has increased relative to prior periods as well.**

Below, we can see that the futures curve is in contango. **Given the near-zero storage costs of holding BTC, the dynamics of the futures market can offer attractive opportunities for profitable cash and carry trades.** This can be done by borrowing dollars cheaply, using it to buy BTC on the spot market and shorting the futures contract.







Source: Skew

Option OI By Strike & Expiry

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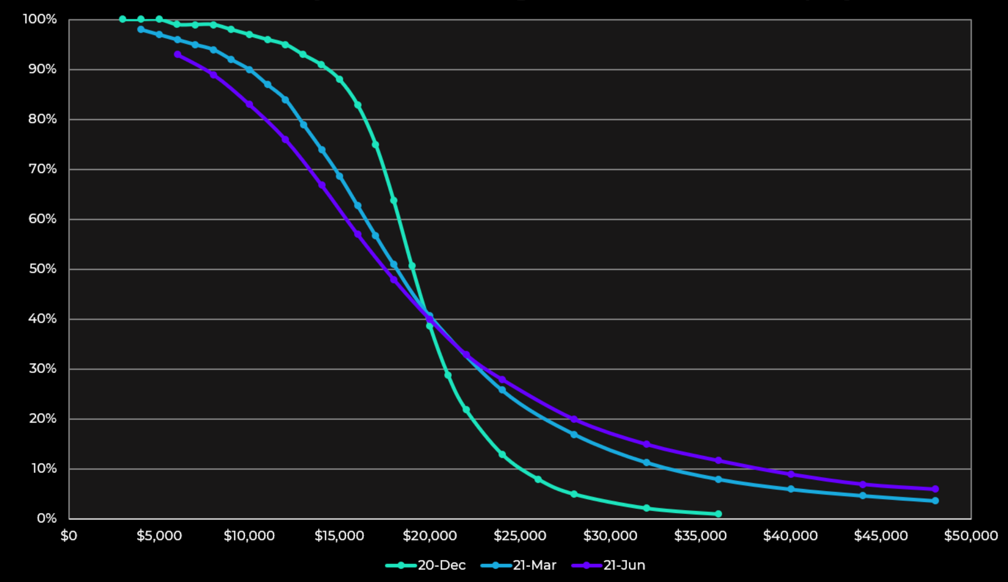
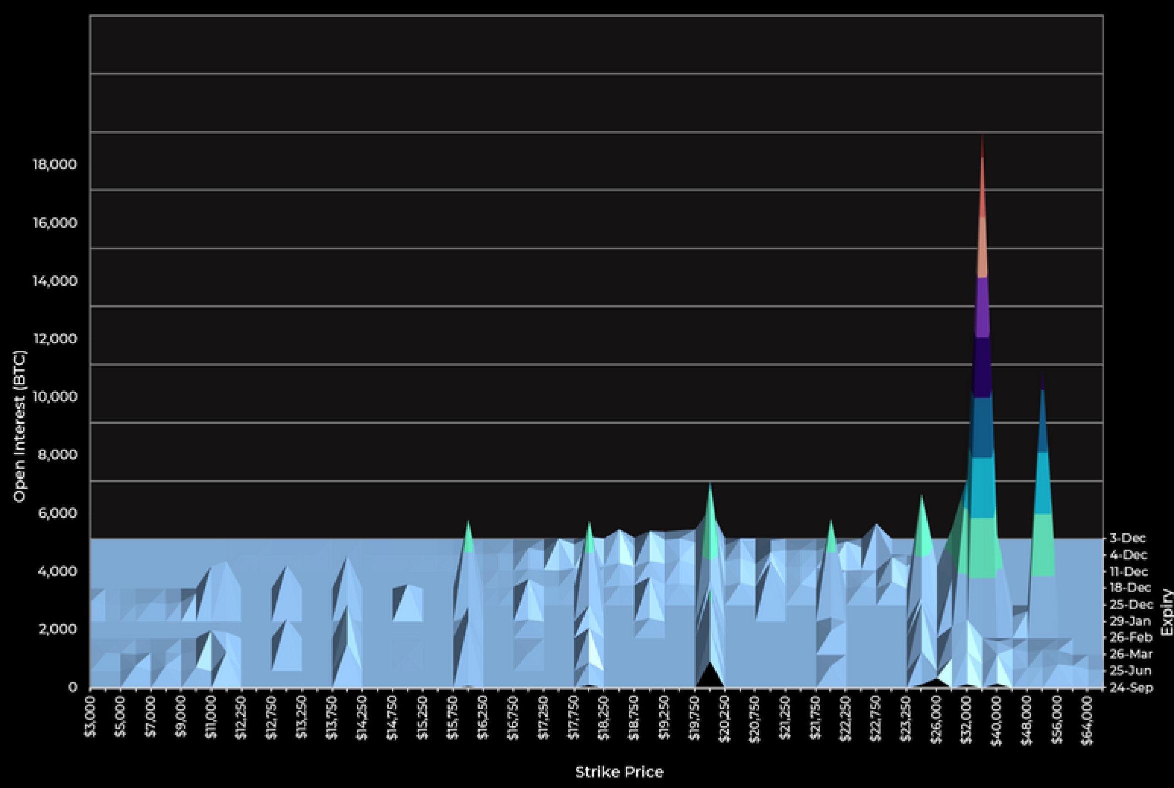
The BTC options market also broke records in November, both in terms of volume and open interest. Deribit is the dominant exchange in this corner of the derivatives market, followed by OKEx and CME. Below, we've plotted Deribit's current exposure to illustrate how traders are positioned. Put and call OI is more or less balanced for December expiries but there is one notable standout evident in the chart below. OI for January calls is 10x that of January puts, at a weighted average strike price of ~$40k. While the chart to the right helps provide context for just how out-of-the-money those options are currently, the value of said calls has 6x'ed since most of the exposure was put on end at the end of October. For the options market overall, the OI put call ratio has steadily ranged between 0.6 - 0.7 since the start of September.

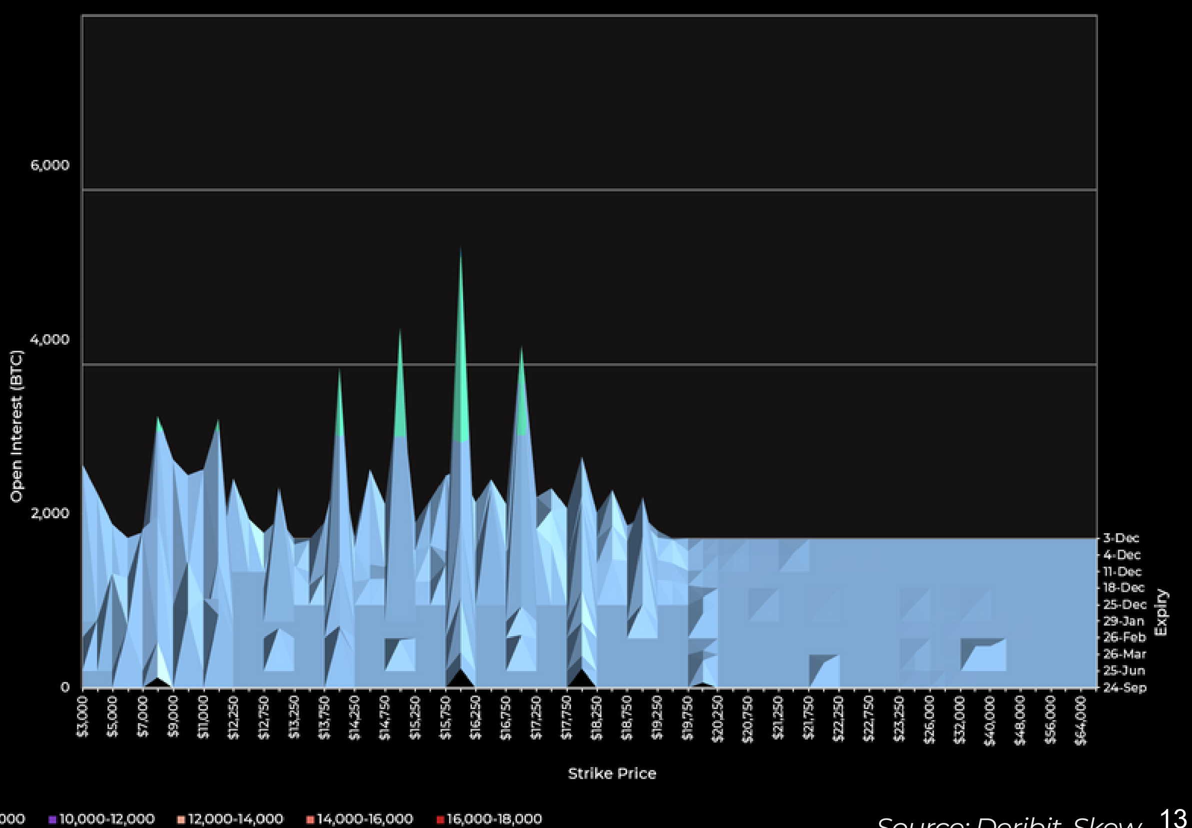
Probability of BTC Being Above Price At Expiry



Deribit BTC Call Option OI By Strike & Expiry



Deribit BTC Put Option OI By Strike & Expiry



Source: Deribit, Skew

Supply Shortage & Exchange Balances

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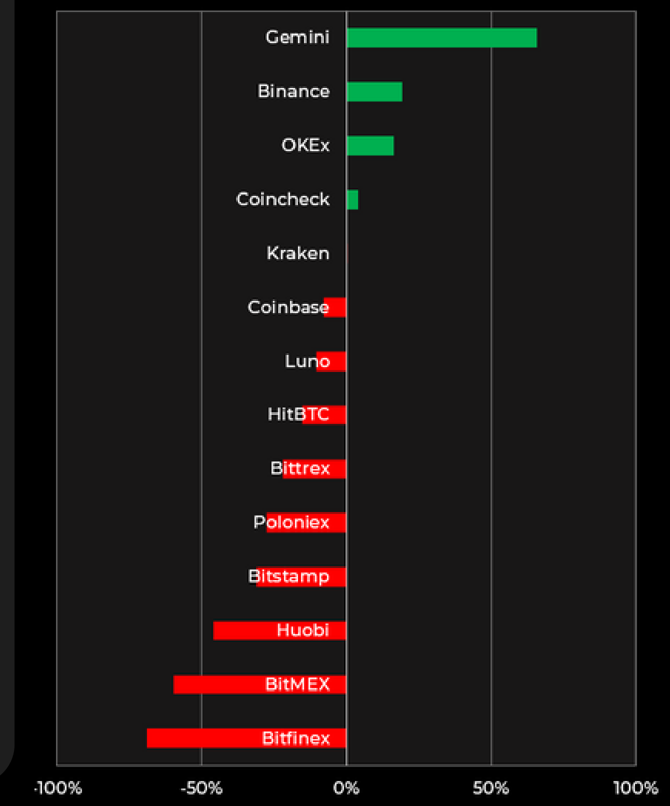
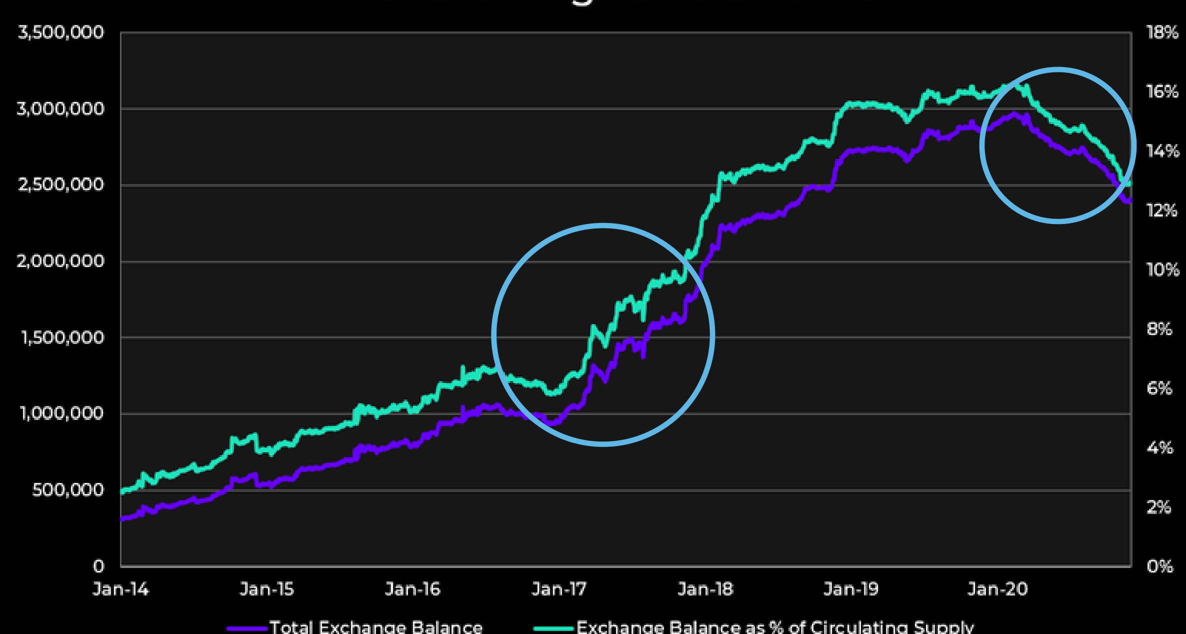
While derivatives exposure can prove a useful indicator and account for enhanced volatility at times, for a true bull market to take hold it all starts with the spot market. For demand to come, there must be accessibility. As Pantera noted in their November letter, the ease of buying BTC has increased dramatically relative to past years now that PayPal, Square's Cash App and Robinhood offer it. **Pantera estimates that PayPal and CashApp users now account for so much volume that they're buying up the entire supply of newly issued BTC on their own.** Proponents of BTC often talk about how the asset's supply and demand dynamics offer an asymmetric opportunity. With 88.39% of the total supply already created, and in the wake of Bitcoin's third halving, there simply isn't enough supply left to satisfy global demand at scale without moving the needle on price. Scarcity, and how market participants appreciate it, can be observed in many different ways. **Notably, the supply of BTC held on exchange has fallen 20% since it reached an all time high in February**. This decrease continued throughout November even as the price took off. This trend stands in direct contrast to the manic 2017 bull market when supply on exchange ballooned. Today's buyers may be moving their BTC to a secure location for the long-term, rather than leaving it on exchange looking for a quick flip.

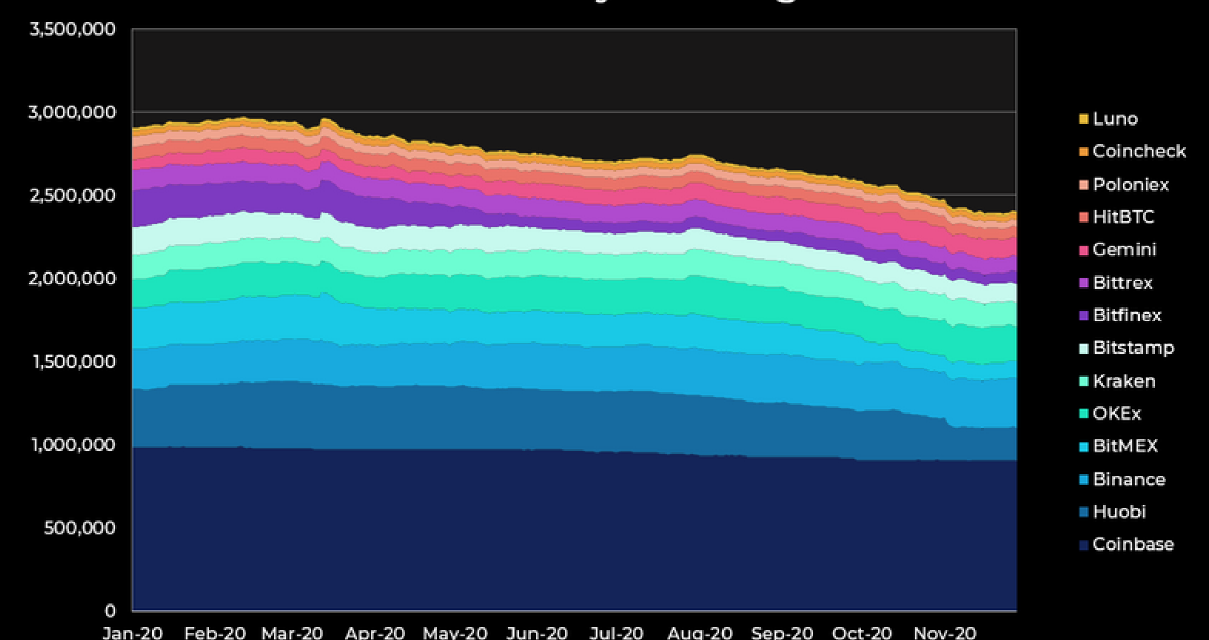
Exchange Balance Growth
(Avg Nov as Δ% of Avg Jan)



Total Exchange BTC Balance



BTC Balance By Exchange YTD

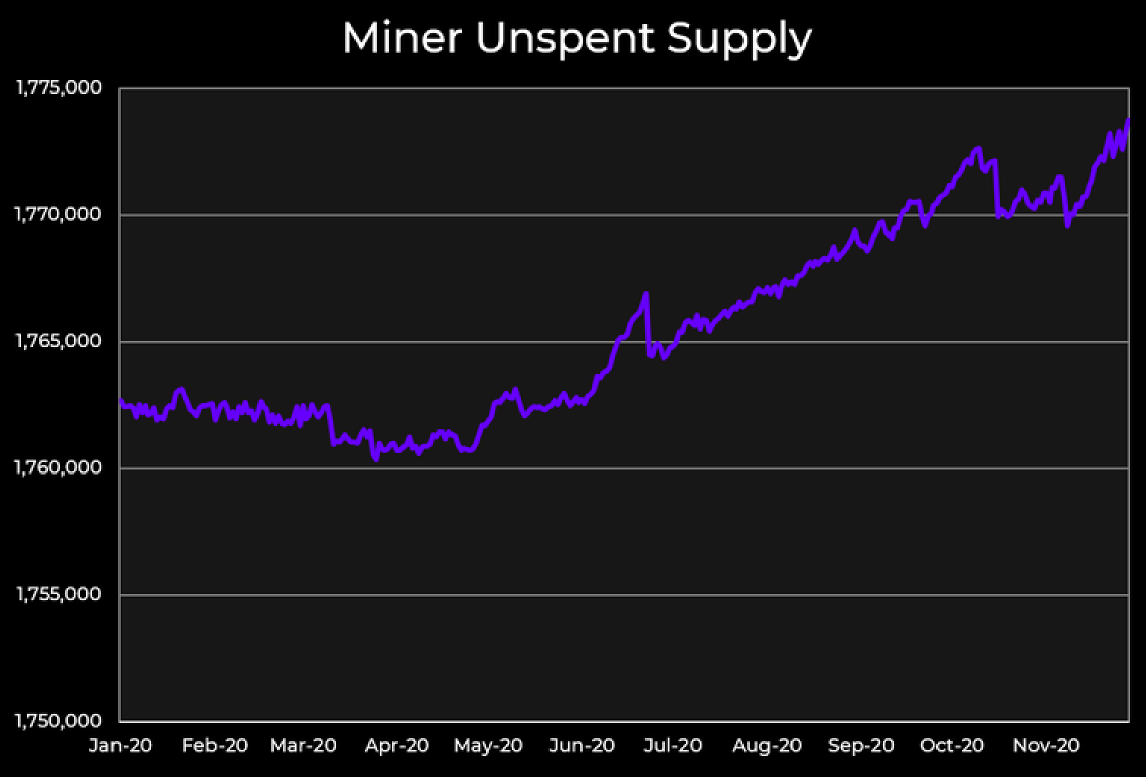


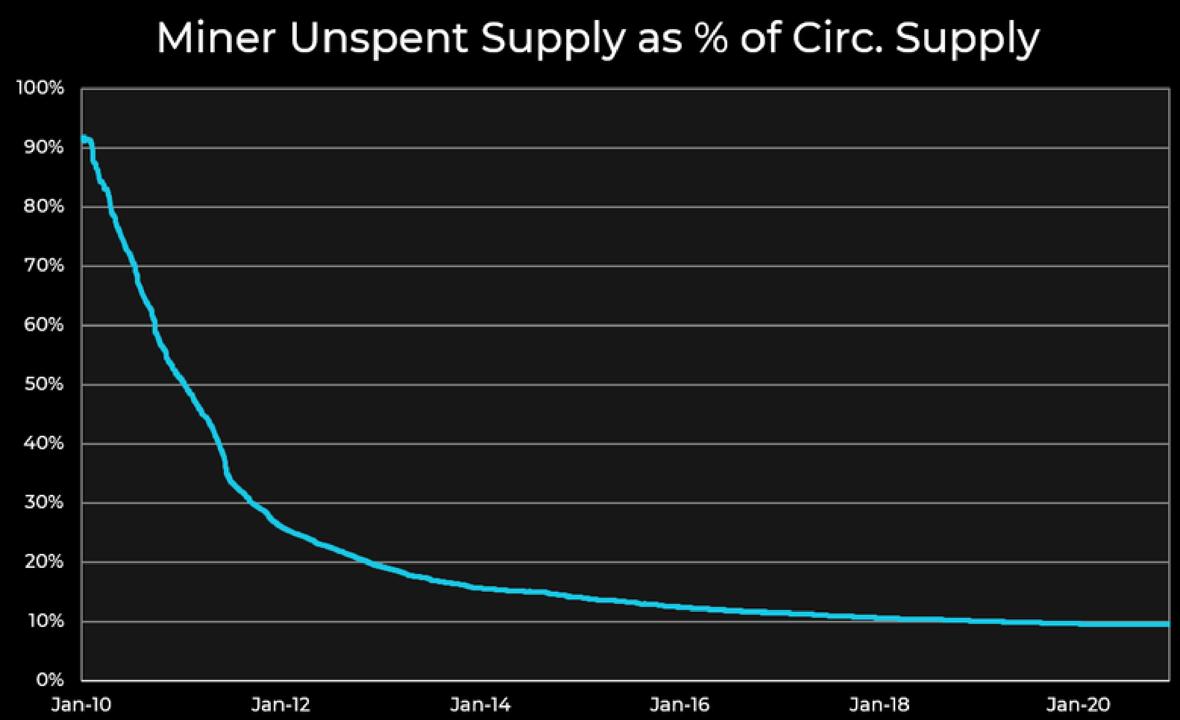
Source: Glassnode

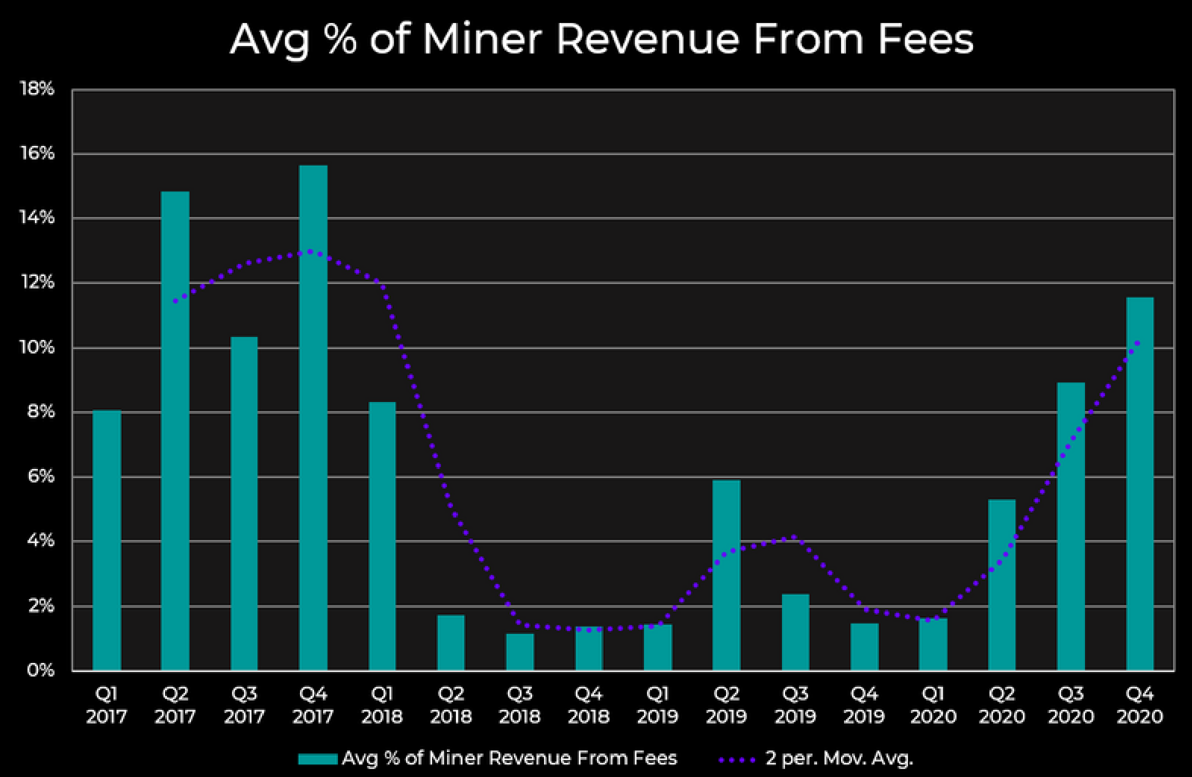
Miner Holdings & Revenue

In contrast to decreasing exchange balances, miners are starting to hold onto more of their BTC earnings. This is a trend reversal that picked up steam after the 3rd halving in May. Miners are net sellers because they need to realize a profit in order to fund their operations. This is still the case, of course, as miners are selling most of their earnings for this reason. The rising price of BTC has undoubtedly allowed them to fund operations while holding onto more supply.

The chart in the bottom right shows transaction fees making up a larger portion of overall mining revenue. While this is a data point you like to see if you're bullish on BTC long-term for sustainability purposes, we should note that a major contributor to that increase in the latter half of this year is due to the block reward halving in May.







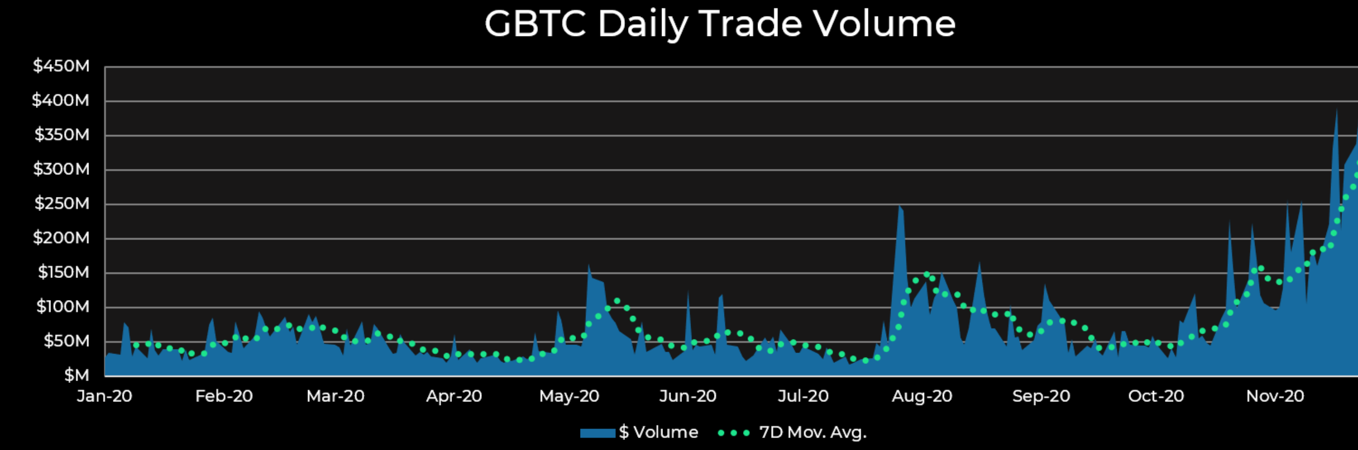
Source: Glassnode

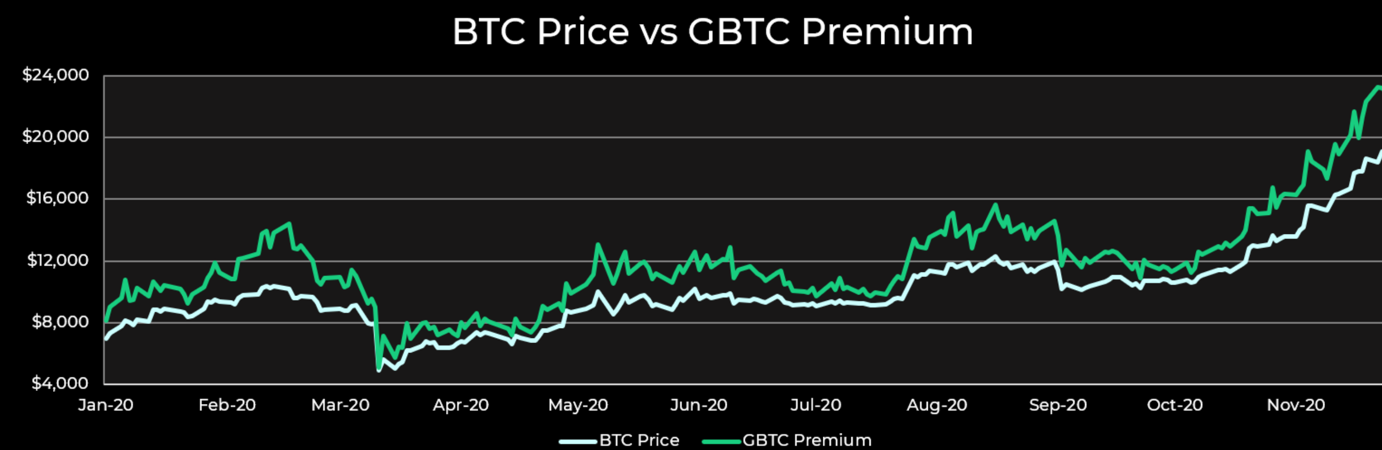
Grayscale Bitcoin Trust

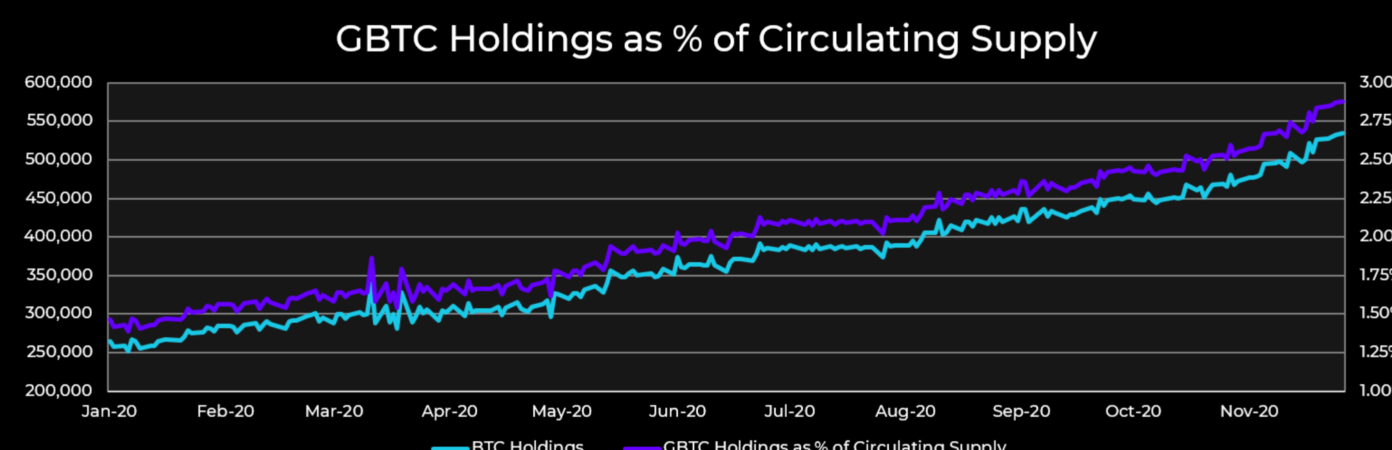
Institutional demand for bitcoin is becoming increasingly evident, from the rapid growth in futures volume and open interest, to the acceleration of inflows into investment vehicles properly suited to handle institutional capital. Grayscale Investments is the largest digital currency asset manager and its most popular offering, **the Grayscale Bitcoin Trust (GBTC), now holds more than 546,000 BTC, or ~2.9% of circulating supply (as of December 3rd).**

But larger capital allocators aren't the only ones involved in the GBTC trade. Volumes across online brokerages like Fidelity have soared, indicating strong retail demand as well, due in part to the tax advantages of holding publicly traded trusts in certain IRA or retirement accounts.

Increased demand has driven the premium on GBTC to its highest level (~31%) since mid-February as more and more investors hop on the bitcoin bandwagon. Since GBTC doesn't allow for share redemptions (just share creation via private placements), part of the influx is motivated by larger players looking to profit from the spread once their shares unlock (for GBTC its a six-month lockup period). **For example, there's ~30 million shares set to unlock between now and Christmas, but so long as demand remains strong, GBTC's premium may not be materially impacted.**







Source: Glassnode, Skew

Bitcoin Price Breakout

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After nearly three years of blood, sweat, and intolerable memes, bitcoin finally eclipsed its previous all-time high for a brief moment earlier this week, trading within a hair of the ever illusive $20,000 level we've all been shamelessly rooting for since the final weeks of 2017. A fresh all-time high is clearly significant, but we're watching for an upside breakout here to confirm the sustainability of its latest jump; a move above $20k on strong volume could really seal the deal given BTC's current uptrend. It's important to keep in mind what happened last time bitcoin broke to a new ATH in the early months of 2017; BTC initially sold off, recovered, retested, broke to a new high, and then corrected another ~25% before continuing its uptrend. Patience is key.

Bitcoin Price Breakout

Source: Bloomberg

Right On Track

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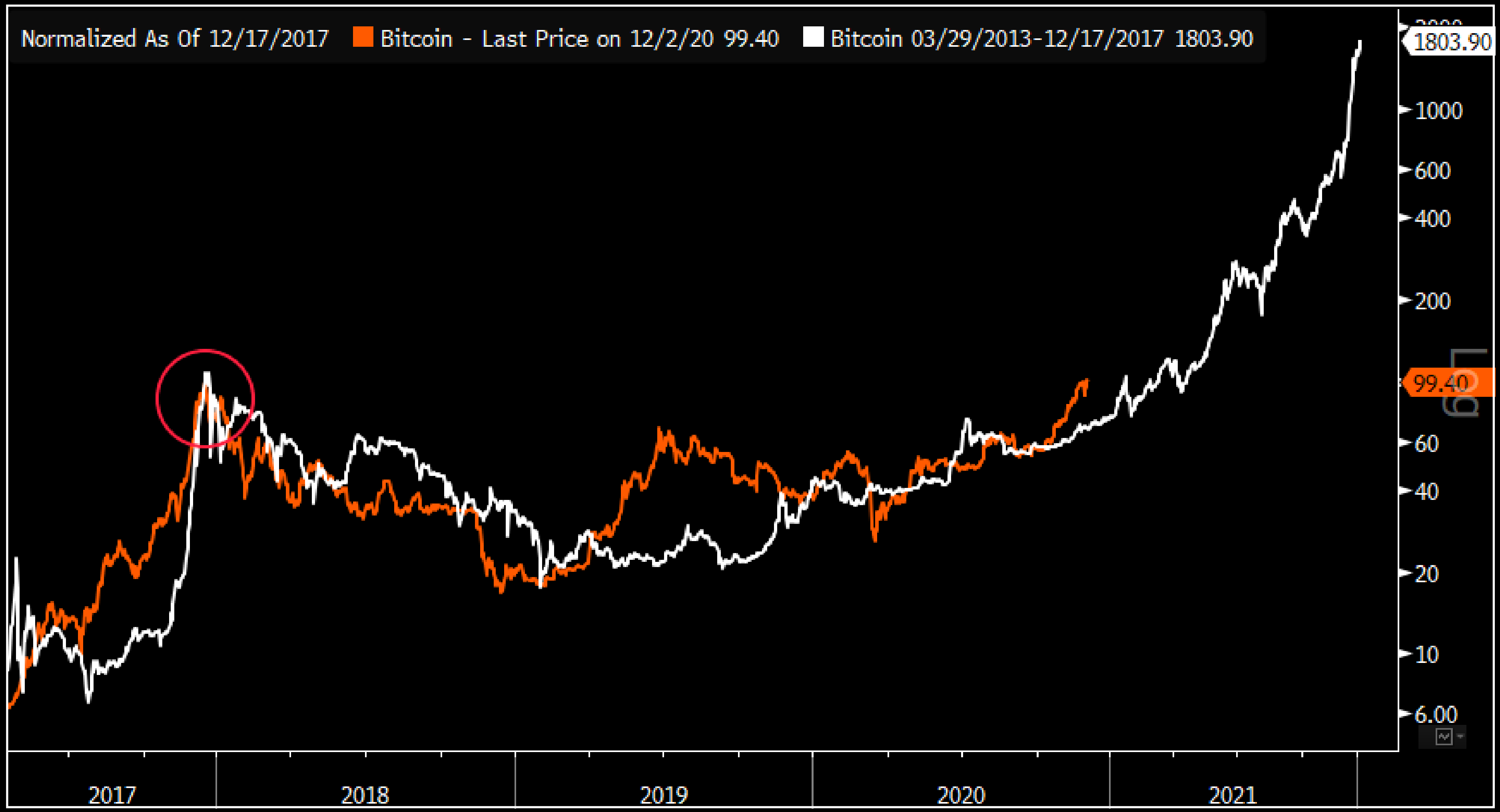
The significance of a new all-time high in USD terms can't be overstated. Many skeptics have publicly denounced BTC for failing to reach a new high despite such a favorable macro backdrop so a strong move north of $20,000 would be yet another testament to bitcoin's staying power. But a fresh high is only the start.

If we compare BTC's current cycle to the one prior, the world's largest crypto asset appears to be right on track; though imperfect, the similarities between cycles is striking.

Bitcoin Price Normalized - Current vs. Prior Cycle



Source: Bloomberg

Bitcoin Goes Parabolic

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We also cited the parabolic nature of BTC's price run up in a note last week, warning against the potential for a near term pullback in an otherwise healthy uptrend.

Shortly after, we saw a sizable price drop - exacerbated by liquidations - and a bit of profit selling just as several momentum indicators flashed extreme overbought readings. BTC's weekly RSI, for example, breached 85 for the first time since December 2017. Since 2013, BTC's 14-week RSI has only surpassed 85 six times prior to last week, so we know our sample size is quite limited.

In the short run, bitcoin's performance is a toss up; **50% of the time BTC was higher in the four weeks following such an extreme reading.** But of those positive occurrences, the **average return was ~49%** compared to an average loss of ~6% in the cases where price declined.

In addition, if we extend the time horizon to 12 months, bitcoin's price was **higher in every instance but one,** which also happened to be the last time its 14-week RSI broke above 85. The average gain, however, in the five occurrences prior to Dec. 2017 was ~1,115%; BTC was down more than 75% in the 12 months following its late 2017 peak.

Bitcoin Parabolic Chart (Top) vs. Weekly RSI (Bottom)

Source: Bloomberg

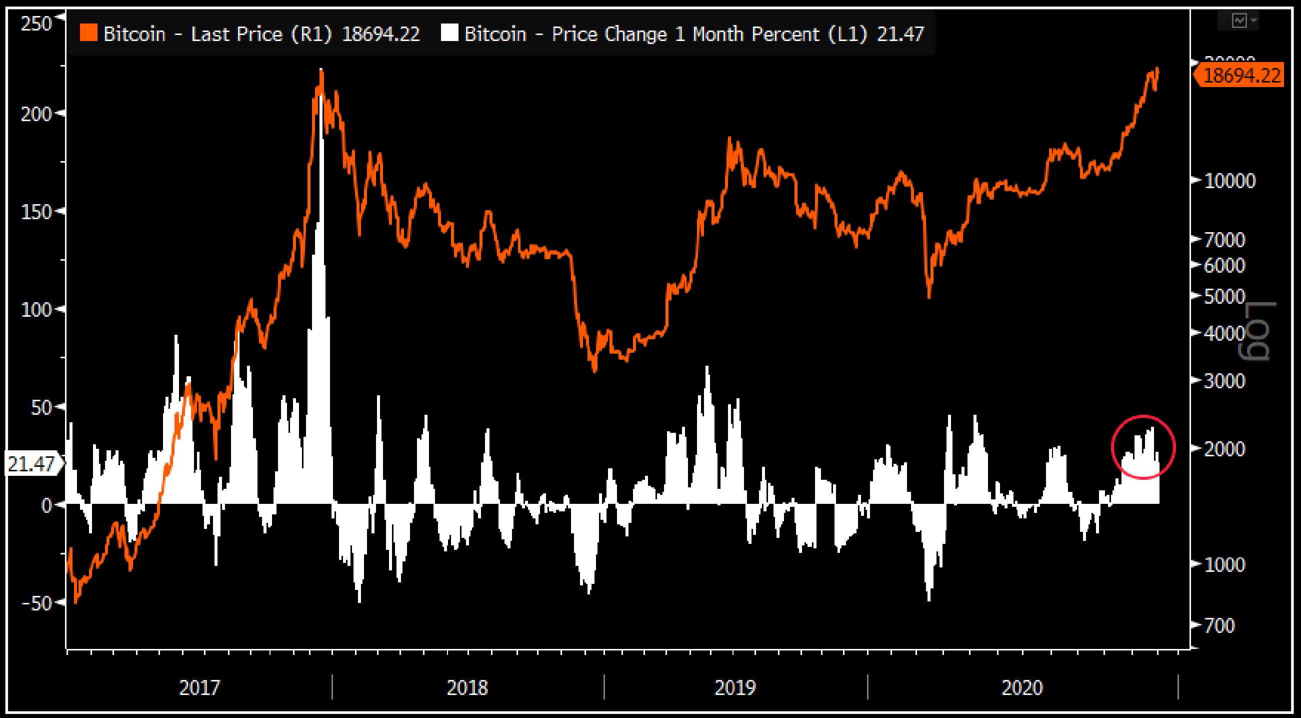
Monthly Performance

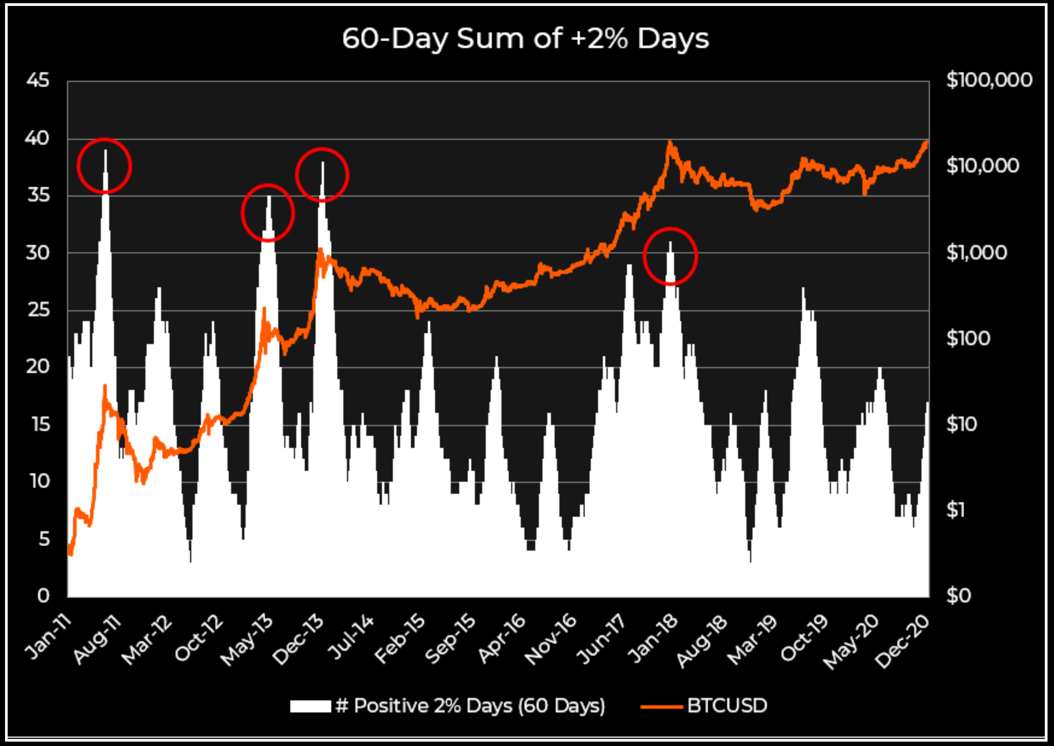
As we've touched on in our recent work, BTC's price appreciation hasn't been nearly as swift as prior cycle peaks. For example, only 17 of the last 60 days were marked by a gain of at least 2%; in December 2017, the number was almost double that.

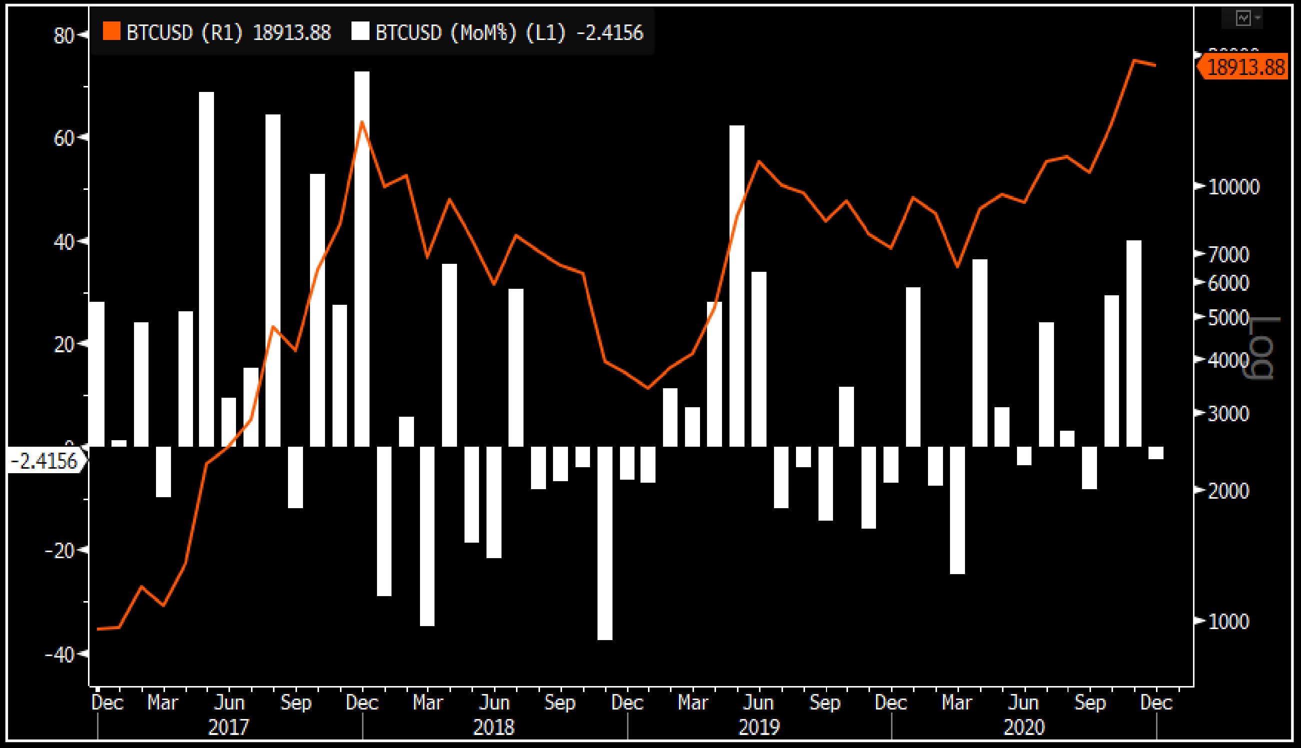
Bitcoin is also coming off its best month since May 2019 and is currently up 81% in Q4 alone, on pace for its best quarter since Q2 2019. Year-to-date, BTC has surged ~170%, outpacing just about every major asset class by over 100 percentage points.

Historically, October through December has been kind to BTC but January tends to cause more pain than joy.

BTCUSD 30-Day % Change (Top) vs. MoM% Change (Bottom)







Long-Term Momentum Strengthens

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Additionally, **BTC's monthly RSI just broke above 70** for the first time since BTC's late 2017 run up; bitcoin's monthly RSI first broke above 70 at the end of 2016 before tacking on another +1,300% through its December 2017 peak. In addition, November marked its highest monthly close on record, surpassing its prior 2017 peak by ~38%.

Longer-term price momentum is also strengthening; BTC is now trading >90% above its 50-week SMA, a long way from its mid-March collapse. Bitcoin's next bull run peak may not be quite as extensive this cycle on a % basis but the firming of several long-term momentum indicators indicate we have a considerable way to go from here.

Bitcoin Price vs. 14-Month RSI (Left) & Monthly Candles (Right)

Source: Bloomberg

Corporate Treasuries: Open Season

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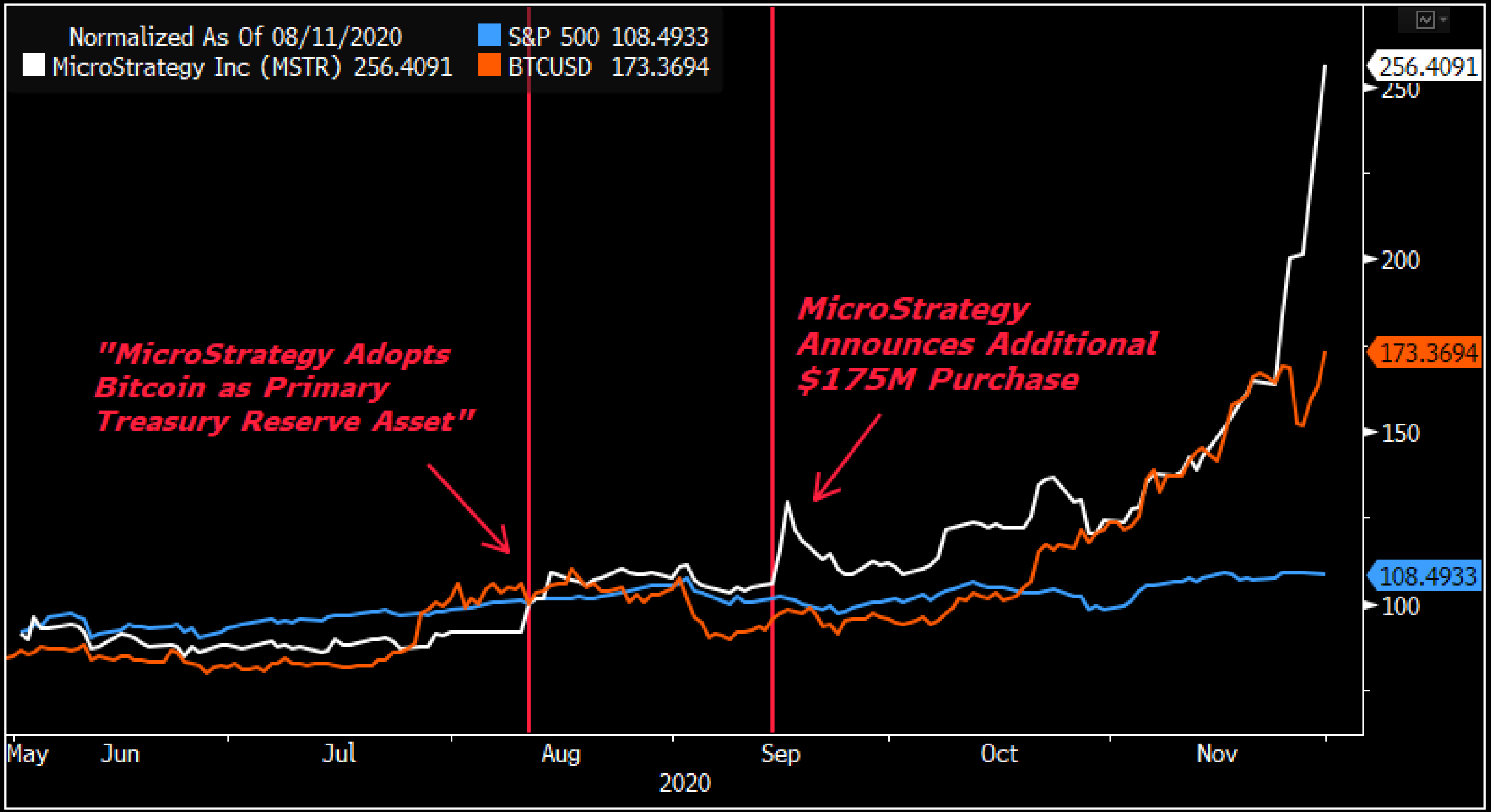
The latest announcements from companies like MicroStrategy and Square may seem like one-off events to some, but their implications have immense consequences. The cat's out of the proverbial bag and every corporate treasurer at every publicly traded large-cap firm is either conducting rigorous due diligence on bitcoin, keeping an eye on it, or has dismissed it altogether. But it's no longer tucked away in the corner; **bitcoin is now part of the conversation.** And it's a BIG conversation. For perspective, the total cash & equivalents balance among constituents in the S&P 500 (ex-financials) is **more than $2.2 trillion;** even if we assume just 5% of that makes its way into BTC in the coming years that equates to ~$110 billion of new demand. Apple, Microsoft, Alphabet, Amazon, and Facebook alone account for roughly $580 billion, and if anyone is positioned to take advantage of an opportunity like this, it's highly profitable tech companies with strong balance sheets and the capacity to take on a bit more risk in exchange for *potentially* major returns. Keep in mind, this only represents US large-cap companies; need we say more?

MicroStrategy (MSTR) vs. S&P 500 vs. BTCUSD



Source: Bloomberg

Starting Points Matter

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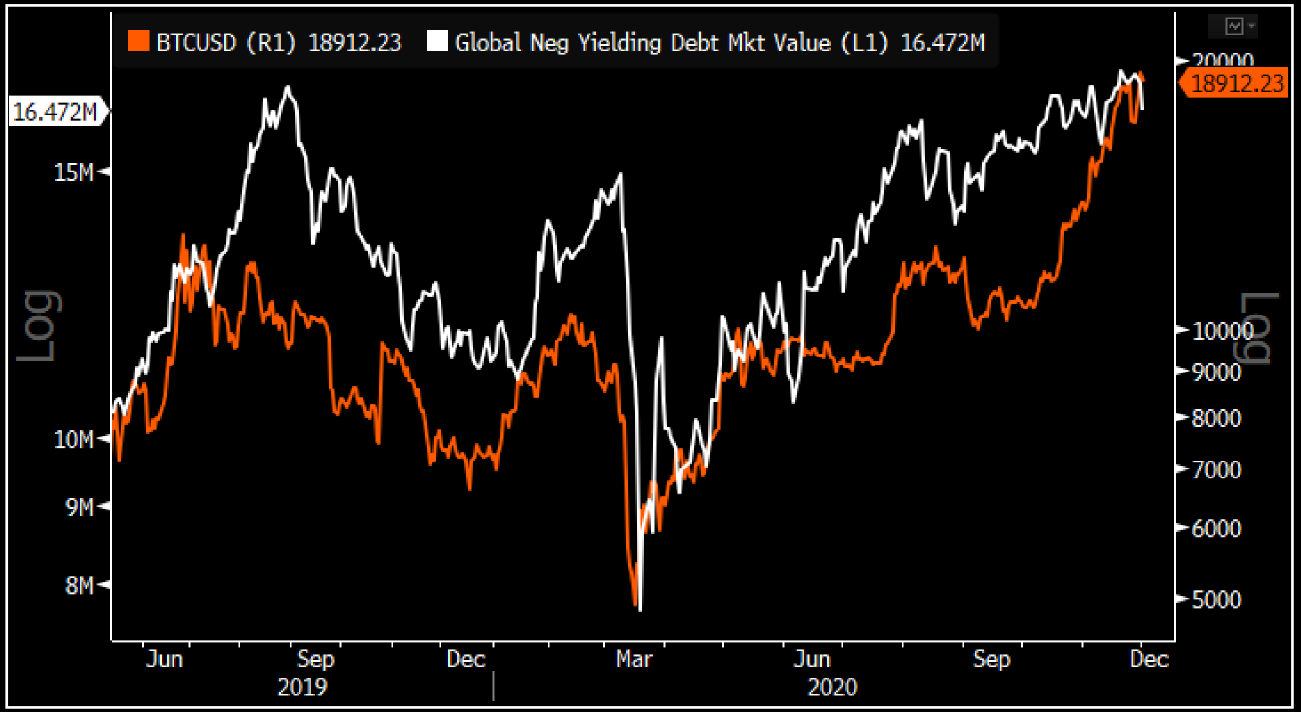
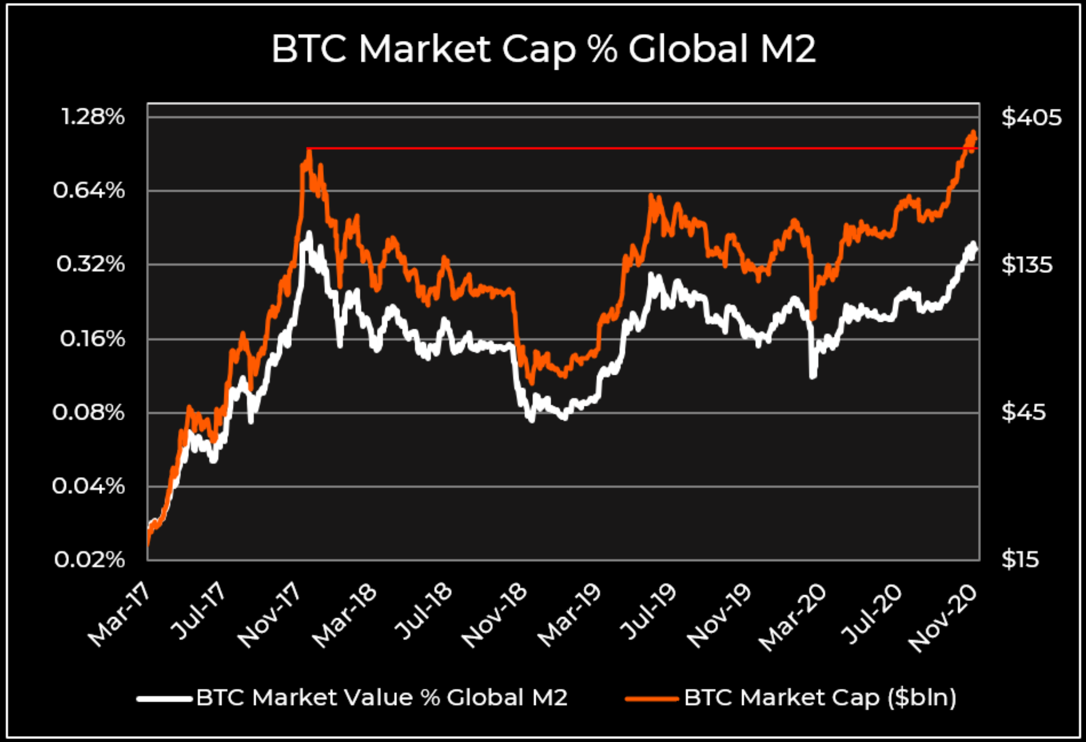
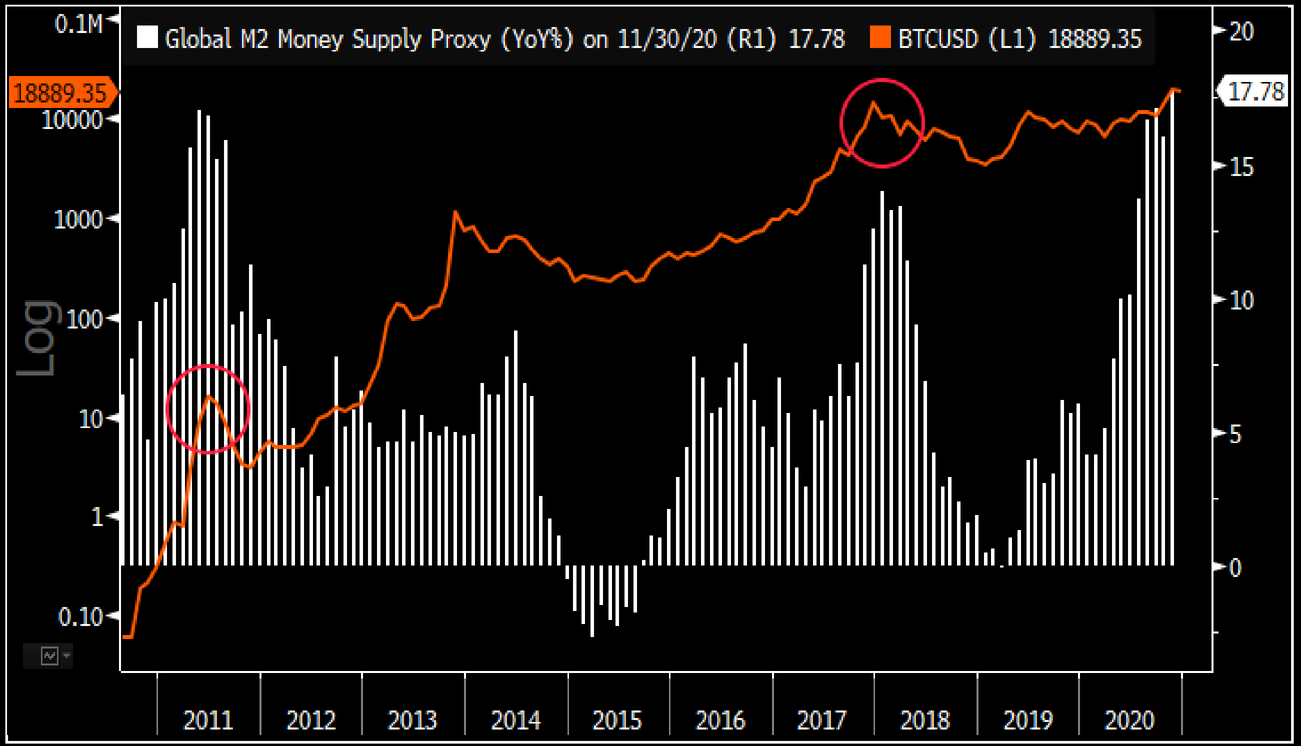
It's probably safe to say bitcoin's publicity-to-market-value ratio is the highest of any asset in existence today; its total market value is roughly the size of Apple and Microsoft's combined cash balance. Notably, more than $11 trillion has been added to global M2 money supply since the end of March. **Bitcoin's price has tripled over the same period yet its total market value still only represents ~0.37% of global M2.**

If our thesis proves correct, BTC could replace a material portion of Treasury and sovereign debt in the average investor's portfolio in the coming years, resulting in immense capital flows for such a nascent asset.

BTC vs. Total Neg Yield Debt (Top) vs. Global M2 YoY% (Bottom)







"Digital Gold" Correlation Breaks Down

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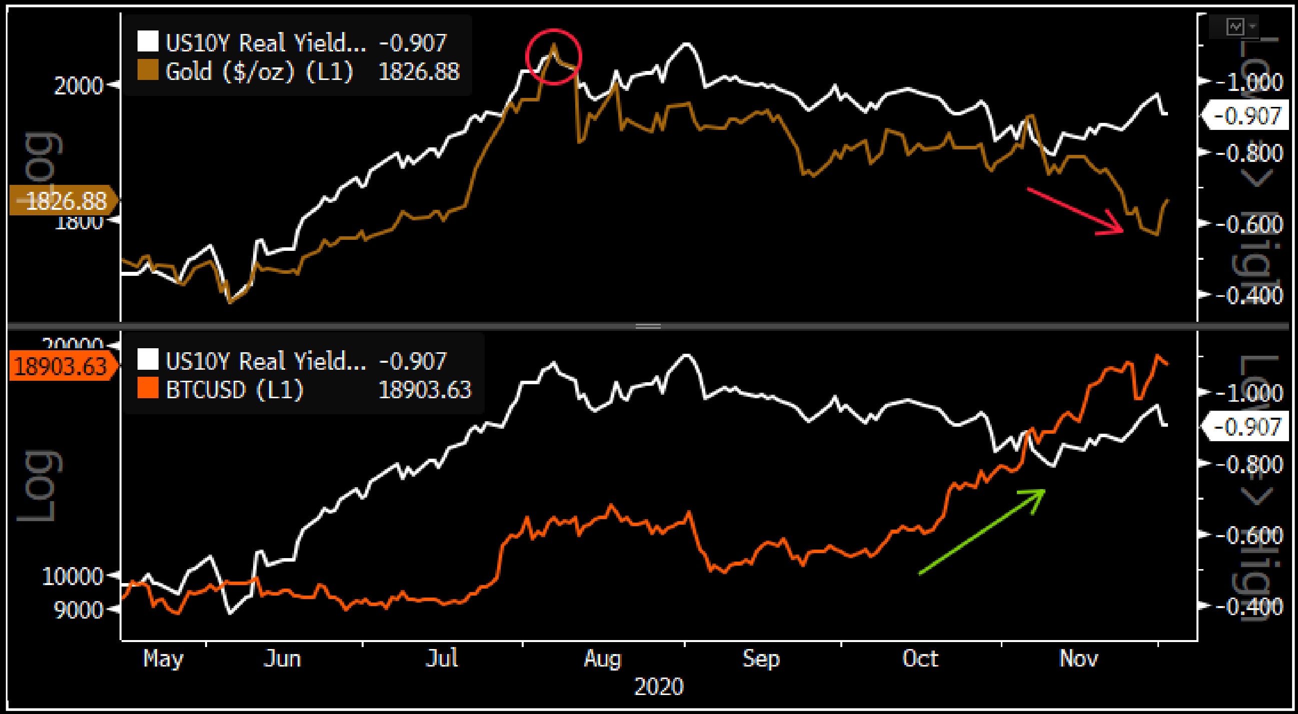
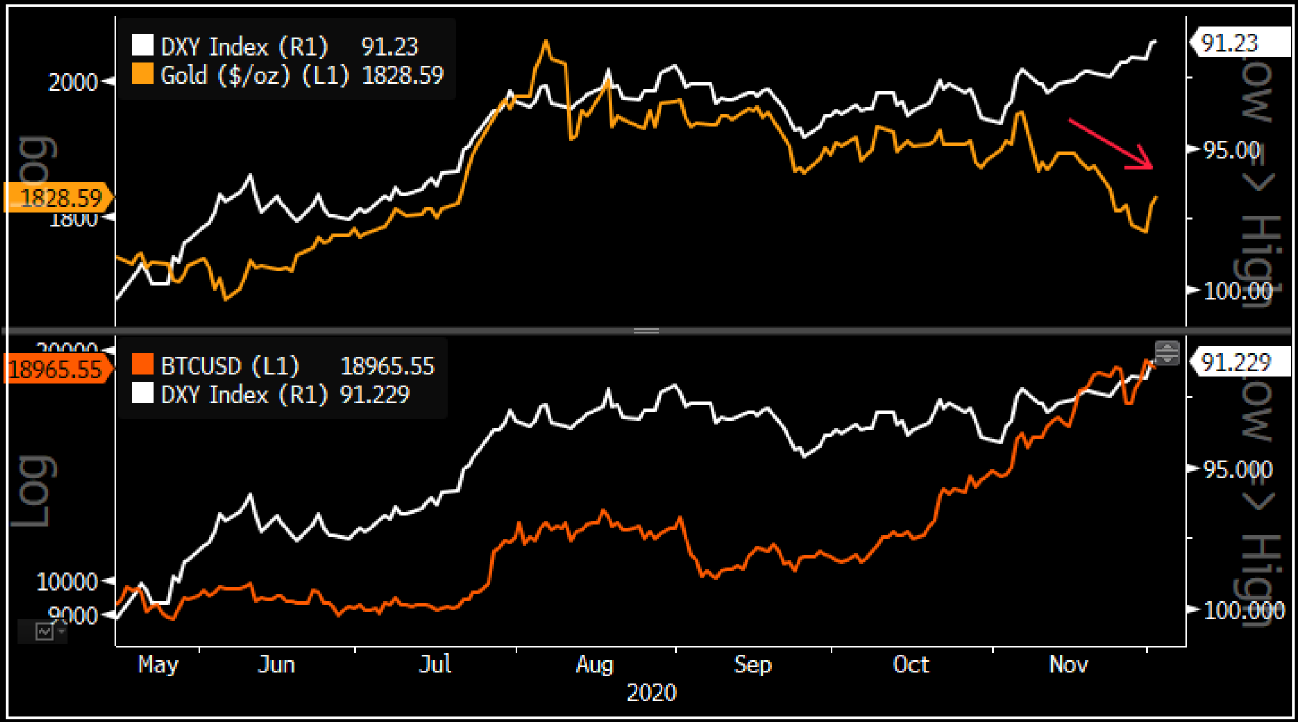
The recent price divergence between bitcoin and gold has raised questions on both sides of the proverbial aisle; some have questioned the longevity of gold's decline, others the sustainability of BTC's rally. For context, **gold is one of the worst performing assets since its early August peak,** aside, of course, from its higher beta counterpart (silver). Initially, gold struggled as real yields steadily rose in the US but the yellow precious metal has continued to fall despite the latest rollover in real rates. On the other hand, bitcoin has been one of the best performing assets over the same period, adding further fuel to the "drop gold" narrative.

Interestingly, BTC also tracked the tick up in real yields for several weeks before kicking into overdrive, leaving gold and nearly every other asset in its dust. Yes, bitcoin has started to receive serious attention from the investment community but the investor base is still largely unique in its lack of institutional participation, despite recent headlines.

At a high level, rising real rates threaten several of this year's best trades, most notably precious metals and large-cap tech stocks. It could also cause problems for BTC depending on the size and speed of the move; **the flip side of a larger institutional presence is the potential spillover effect of a broader sell-off in conventional assets.**

Gold & BTC vs. US Real Yields (Top) vs. DXY (Bottom)





Source: Bloomberg

Inbound Interest Picking Up

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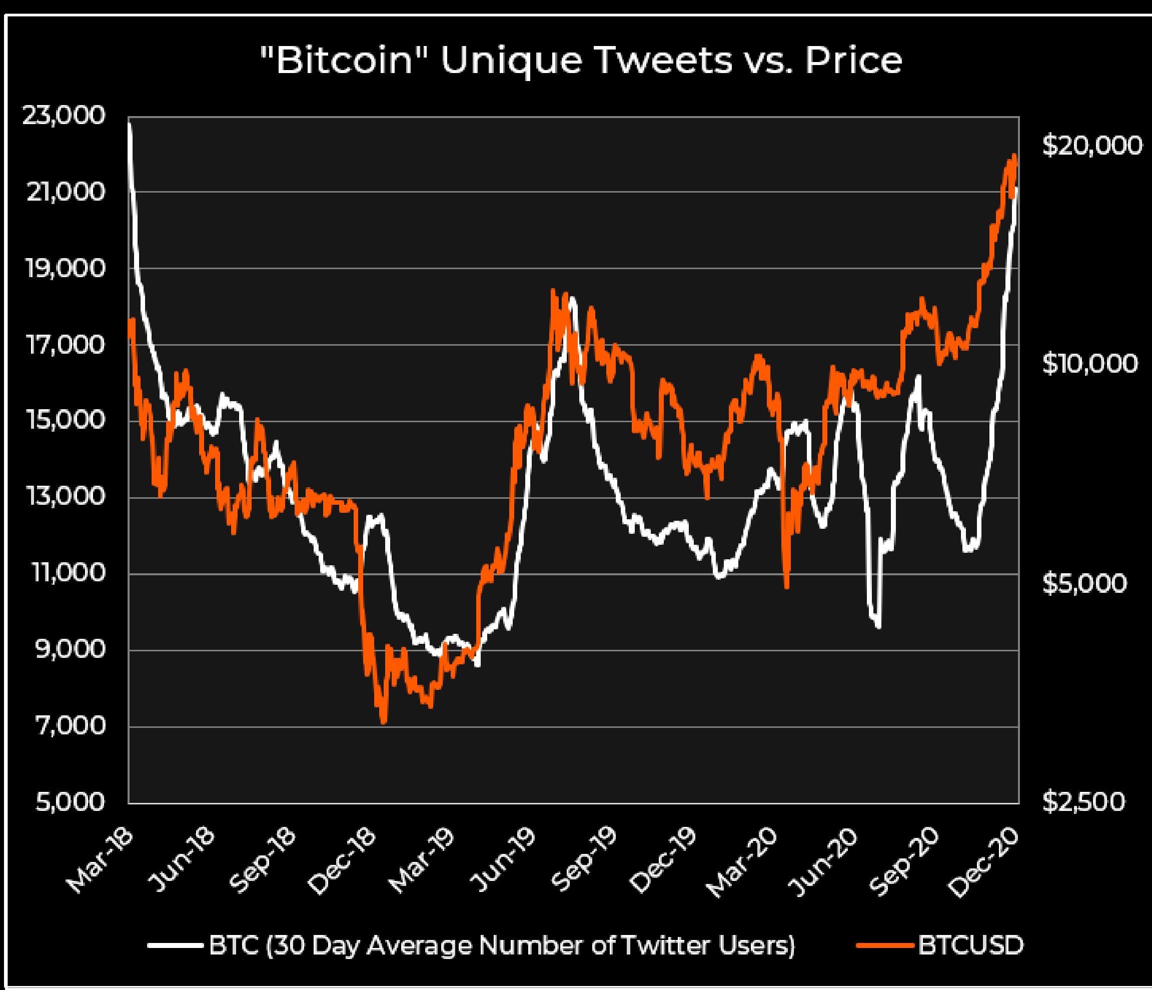
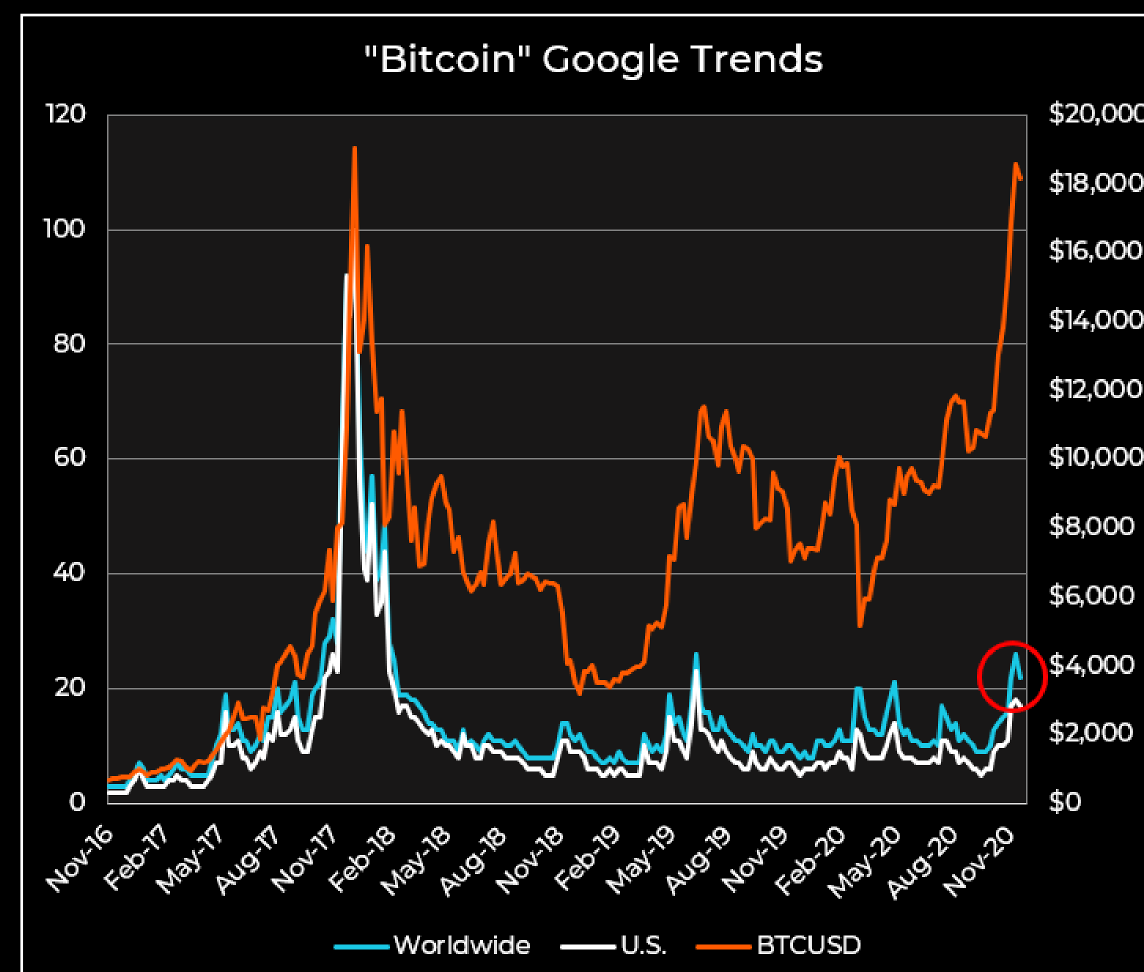
We know institutional capital is starting to wade into this market. Similarly, we have not seen the same crazed mania around BTC as we saw during the late 2017 days, evident - at least in part - by the relatively low level of Google search trends for "Bitcoin" both in the US and worldwide. Interestingly, recent analysis from alternative data provider The TIE revealed an increase in unique Twitter users posting about Bitcoin, though the total still sits below prior peak levels. To quote, *"The 30 day average number of unique twitter accounts discussing Bitcoin is now at its highest point since March 2018 and has nearly doubled since Jan 1st."* Their proprietary Long-Term Sentiment Score for BTC has also started to tick higher after its modest decline from mid-August.

BTCUSD vs. # Unique Twitter Users (Left) & Google Trends (Right)





Source: The TIE, Google Trends

All Eyes On The Almighty Dollar

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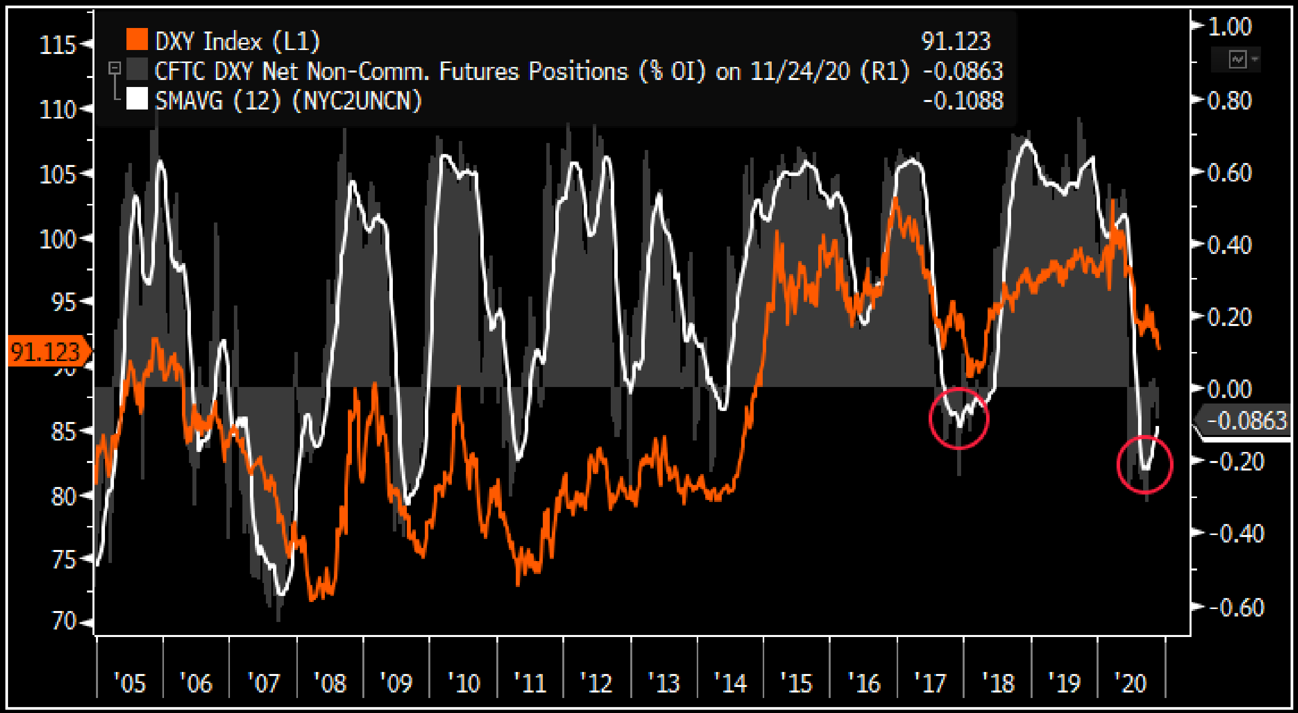
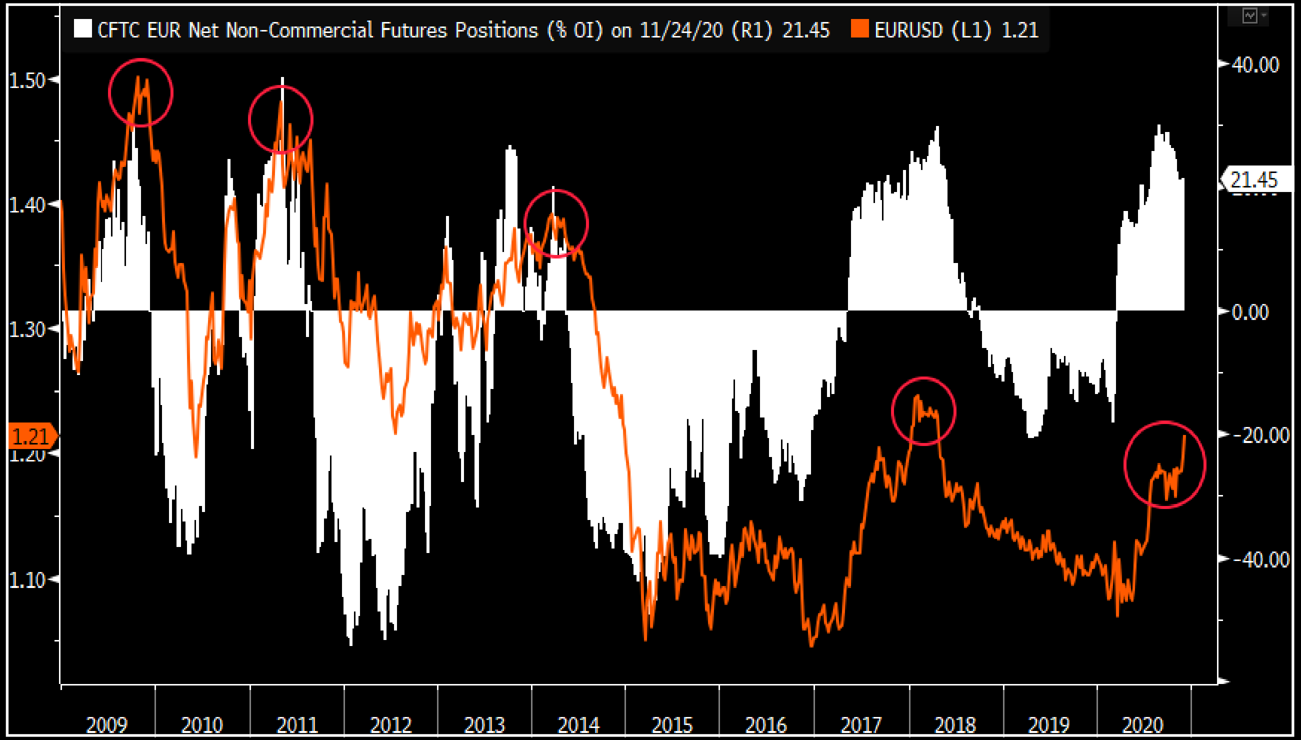
Taking a purely pragmatic view, ignoring the ethos Bitcoin was built upon, BTC is arguably the most levered asset to broad-based currency debasement. Unsurprisingly, our long-term outlook for the US dollar is quite bearish; in the face of mounting public and private debts and off-balance sheet liabilities, **currency debasement seems all but inevitable as the escape route of choice.** Now, that doesn't mean all fiat currencies are doomed and headed for obsolescence; as we've stated in the past, dethroning King Dollar is not going to happen overnight.

In fact, **one of the biggest macro risks to BTC in the near term is a sharp reversal in the greenback,** which is currently on track for its worst 2H (second half) of the year since 2010 and its second worst in the last 15 years. Sentiment towards the dollar is dreadful as talks of additional fiscal "stimulus" translate to increased debt monetization and "money printer go brrr" memes.

While the long-term outlook is bearish, several indicators point to a potential dollar reversal in the coming months. Net speculative positioning has gotten equally bearish USD as it has bullish the euro; similar levels historically have preceded key inflection points in the DXY. After narrowing considerably, the spread between euro area and US real yields has also begun to widen again, diverging from recent EURUSD strength.

DXY (Top) & EURUSD vs. Net Speculative Positioning



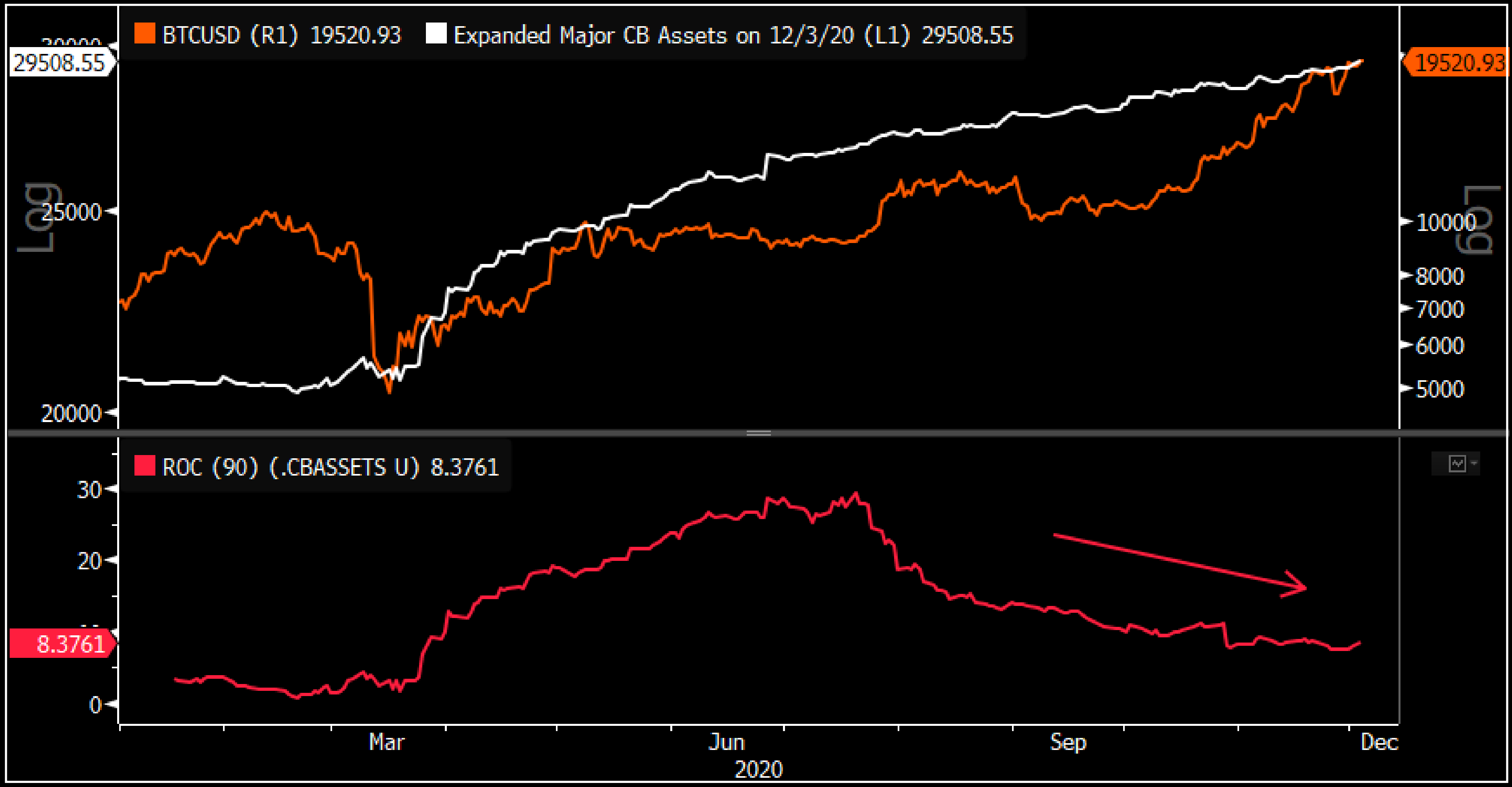


Source: Bloomberg, CFTC

Liquidity Tightening

In addition, liquidity conditions do not appear as favorable as they were earlier this year. After exploding in Q2, the growth rate of major central bank balance sheets has steadily declined since. In fact, the amount of Treasury bond issuance is currently outpacing Fed purchases at a rate of 7:1. Such conditions could spark another violent market sell-off, which likely would have an adverse impact on BTC in the short run. Policymakers aren't well known for being the most proactive bunch, so any short-term pain is all but guaranteed to get a strong response from Powell & Co., adding further fuel to the bitcoin fire; you won't find us standing in the way of policymakers and their determination to fight off deflation by "any means necessary".

BTCUSD vs. Major Central Bank Assets (Top) & 90-Day Asset Growth (Bottom)



**Major central banks include the Fed, ECB, BOJ, PBOC, BOE & BOC.*

Source: Bloomberg

Greed & Volatility Spikes

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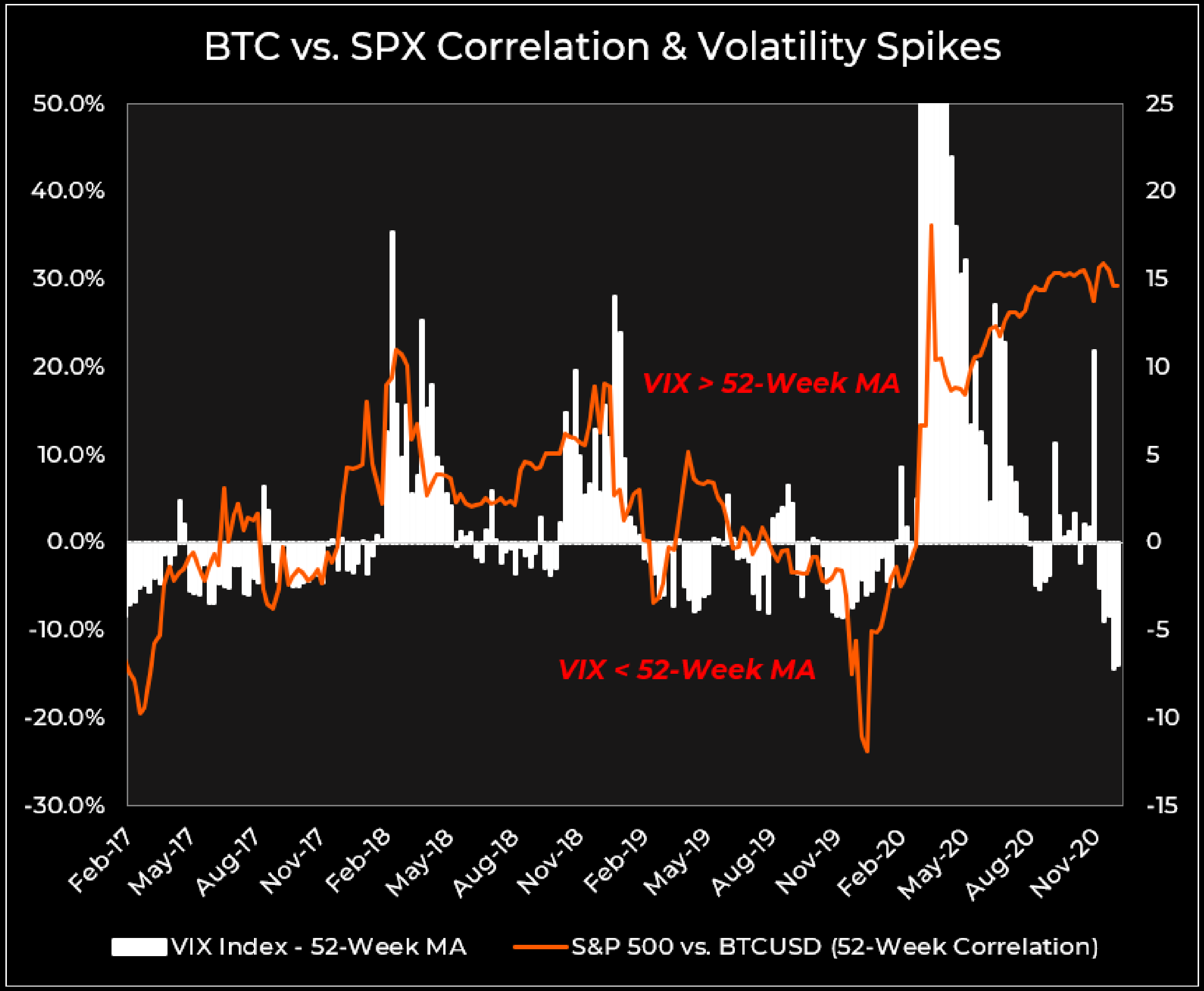
Violent corrections and volatility spikes have not bode well for bitcoin historically. Over longer time horizons, BTC lives up to its reputation as an uncorrelated asset but its relationship with equities tends to strengthen during periods of heightened market volatility (as measured by the VIX below). This is important to note given the rising risk of a sharp correction in equity markets. Teddy Vallee, founder & CIO of Pervalle Global, stated, **"our models indicate we are in the worst period of liquidity this cycle, which combined with current positioning and sentiment, increases the probabilities of a flash crash from now through February 2021"**, in an investor note earlier this week (*see our recent Macro Matters interview with Teddy for more context*).

Also of note, the **Crypto Fear & Greed Index has jumped to its highest level since June 2019** (95) with its 14-day average recently exceeding its summer '19 equivalent. Historically, extreme readings in this index have also marked short-term inflection points.



Source: Bloomberg, Crypto Fear & Greed Index

The "Goldilocks" Backdrop

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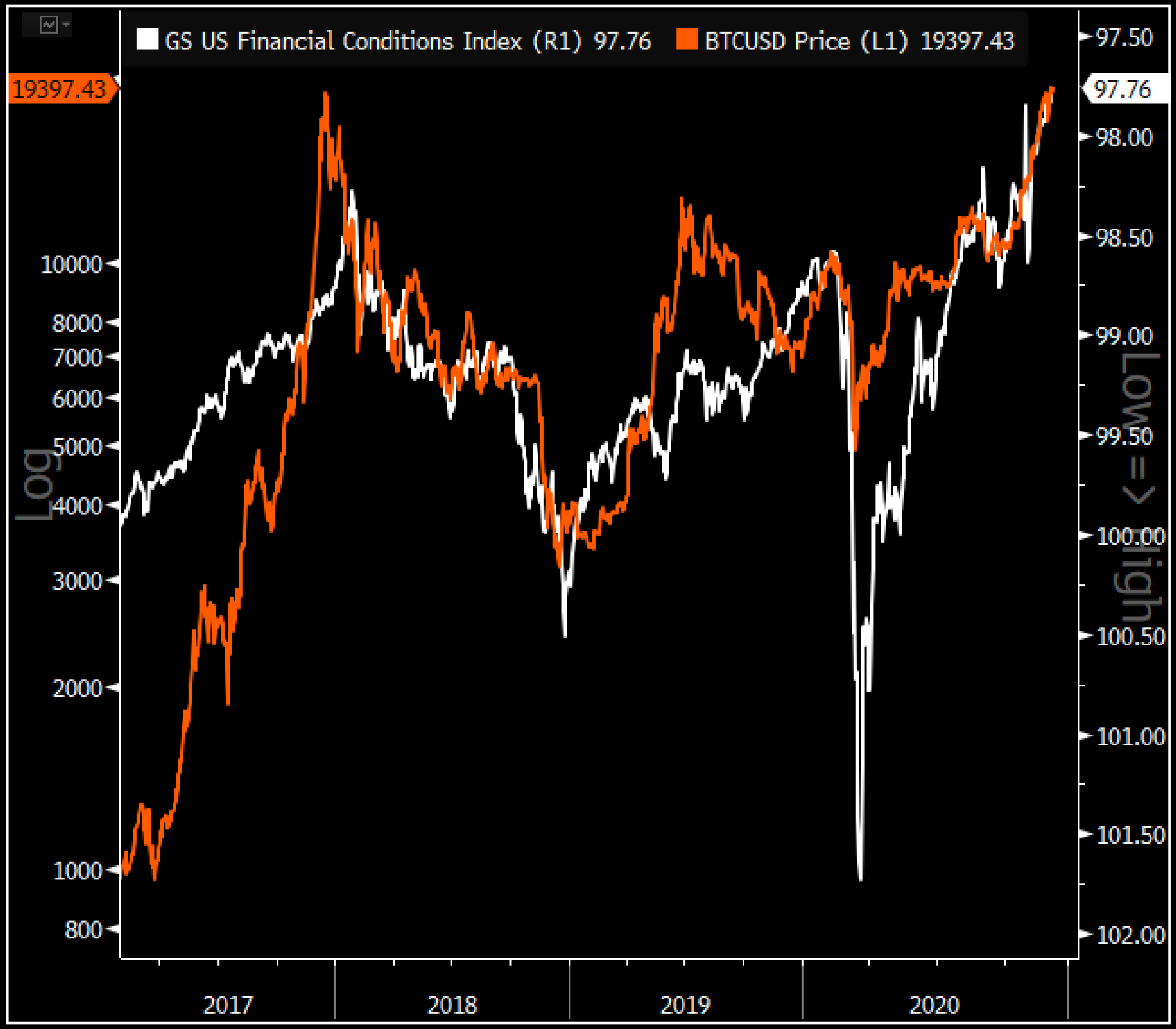
A "goldilocks economy" usually refers to a period of low - but positive - economic growth with little inflationary pressure. In our view, the "goldilocks" macro environment for bitcoin is one characterized by an **acceleration in monetary growth, easing financial conditions, tepid or declining market volatility, a weaker USD, and lower real rates,** which have begun to roll over once again, driven by a sharp rise in breakeven rates. With nominal rates largely anchored, a pick up in inflation expectations can drive real rates deeper into negative territory, an ideal scenario for assets like BTC and precious metals (i.e. gold). Lower real rates also imply a weaker USD, though we are seeing inflation expectations rise in other advanced markets too; Germany, Canada, and even Japan have seen a rise in 10-year breakeven rates the last few weeks.

BTCUSD vs. GS U.S. Financial Conditions Index (Left) & Asset Class Volatility, 260-Day (Right)



Source: Bloomberg

Fool Me Twice...

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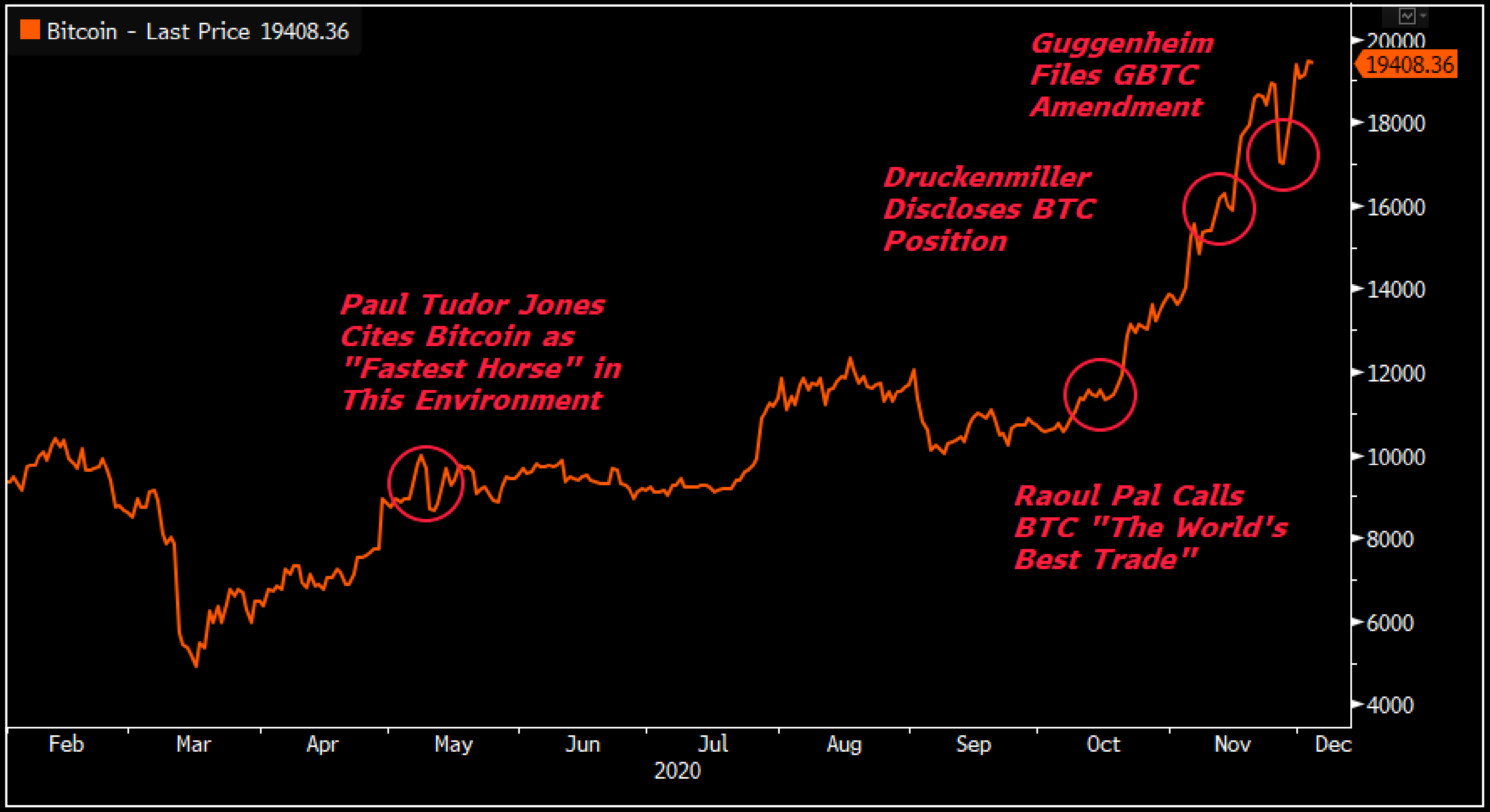
This is not your 2017 Bitcoin. Mass retail speculation and viral memes have been swapped for family offices and world-class macro investors. Paul Tudor Jones expects it to be "the fastest horse", drawing parallels to gold in the 1970s. Stan Druckenmiller has disclosed a bitcoin position of his own, joining names like Dan Tapiero who've been pounding the table on BTC. Raoul Pal has called bitcoin the "best trade and future opportunity he's seen in his career." Investment newsletter favorites like Luke Gromen and Lyn Alden are tying bitcoin into their regularly scheduled macro analysis.

Bitcoin has proven it's not simply the "tulip bubble of the 21st century"; a new ATH puts the final nail in that ignorant coffin. Yes, we're still early, but we're not *that* early, not anymore. Every RIA, financial advisor, and investment professional now sits at a crossroad: lean in to this new paradigm and embrace foreign concepts like "digital scarcity" or dismiss bitcoin and hope all those aforementioned names have got it wrong - because if they're right, it likely won't be career risk keeping them up at night.

Bitcoin vs. Notable Investor Disclosures



Source: Bloomberg

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