PORTAL
ASSET MANAGEMENT

Portal Market Commentary - April 2023

Market Update

April was a volatile month which began with a 10% rally in the first half and then suffered a sharp 12% fall into the second half on continuing concerns around inflation and further interest rate hikes, as well as hostility from the SEC. Bitcoin has been range-bound between $27k and $30k breaking through $30k for the first time since July 2021. The Portal Digital Fund finished April down -0.5% net of fees vs the market as represented by the CCI30 Index down -0.7%.

Market Developments

Ethereum's Shanghai upgrade is arguably one of the most important events in the crypto industry in 2023. Another major development during April was Ethereum's first major upgrade since The Merge, "Shapella". This was another major success allowing users to withdraw staked ETH from the Beacon chain for the first time since 2020. In contrast with market expectations, users deposited more rather than withdraw their ETH and the total supply of ETH staked reached a new all-time high of over 18.7m!

Another enjoyable development was the public grilling of SEC Chair Gary Gensler who was interrogated by Congress for his unfounded and irrational cryptocurrency crackdown policy. Members of Congress called him out for not working with bank regulators and ignoring obvious signals that led to the FTX failure, some angrily detailing his gross incompetence and calling for his removal.

We continue to see the shift of global monetary policy control and power from the USA to the BRICS-dominated Emerging Markets. Christine Lagarde, President of the ECB, stated in a speech last month to the Council of Foreign Relations (CFR) that "We are witnessing the emergence of a new global monetary system." The international status quo of the USD being the reserve currency of the world is no longer to be taken for granted. This has profound implications for investors' asset allocation decisions going forward.

Positioning Yourself in an Unreliable World

As much as many market pundits (The inverse Jim Cramer ETF comes to mind) espouse the great complexity in managing money, there are in fact only a few big levers we need to understand and extrapolate forward. The most important of these is interest rates, or the price of money. From here flows an outlook across all major asset classes depending on where you are in the credit cycle.

We firmly believe we are at the peak of the hiking cycle for reasons explained in our last newsletter available here. The reality is, the FED has no choice but to begin easing, unless they and the 400 economists they employ are comfortable with a global collapse in the banking system, which the rest of the world, led by BRICS, is not.

Based on that brief assessment, the outlook for each asset class is as follows:*[1]

1. **Fixed Income**
   Given our expectation of the end of the current hiking cycle and an anticipation of rapidly falling rates towards the end of 2023 into 2024 as the Global Recession deepens (in congruence with the IMF's latest projections), credit has a favourable investment outlook. However, given the duress across both government and corporate balance sheets, we believe default risk is not being priced appropriately, particularly amongst high-yield corporate bonds, and any financial service firms. More importantly with the USA showing signs of losing its global currency reserve status, there can, and we expect will, be a large dumping of US government bonds, sending gyrations through the fixed income yield curve.

2. **Real Estate**
   As a real asset that is both cash-generative and provides utility, property has a safe outlook as a store of value. However, it has also rallied substantially given the continued debasement of currencies globally. We expect countries that are still attracting migration such as the EU, UK, Australia and to an extent USA will continue to see positive property returns, albeit it much lower. A caveat is that with interest rates at current elevated levels we may also see a reduction in prices as buyers struggle to afford repayments and banks are unable to extend credit and provide mortgages.

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[1] *We are happy to have an in-depth discussion around the outlook for each asset class and the reasoning supporting this, but this is not an appropriate publication to do so given constraints in length.

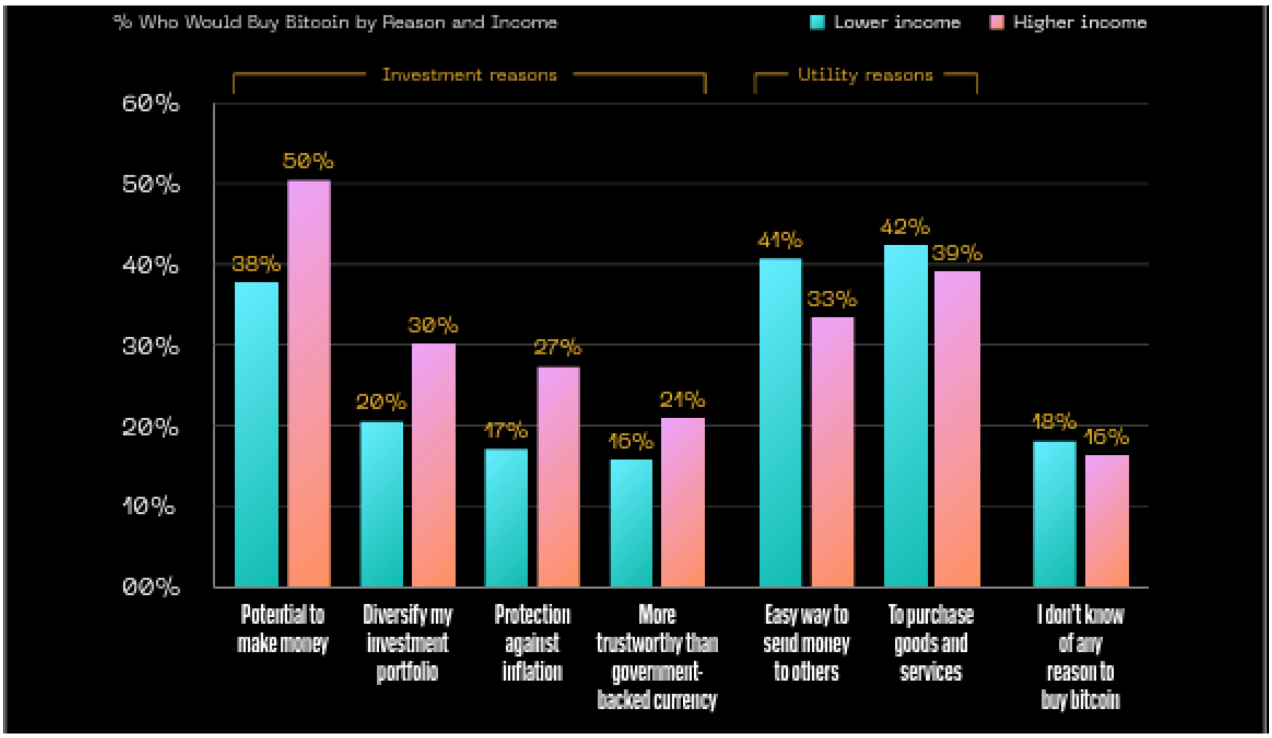
3. Equities

If we exclude defence spending on the conflict in the Ukraine, corporate USA and many western countries are already in recession. Consumer spending will remain anaemic given high food and energy prices, and the continued job cuts particularly in the tech industry. Consumer staples and defensives such as Home and Personal Care, Alcohol and Tobacco will continue to maintain earnings. As interest rates fall, we may see a rerating of the market PE ratio, especially in long duration assets, so the outlook is mixed given the weak performance of markets in the past 6 months, and being selective will be critical.

4. Alternative Assets

This includes Gold, Collectibles, Cryptocurrencies and Digital Assets. We believe that there is a very strong case to be made for allocating a portion of a portfolio to the alternative asset bucket for the sake of diversification. Gold and Collectibles are generally illiquid, have a substantial cost of insurance and storage with no cash-flow or yield. As such investment in these assets is based on personal preference and utility so we reserve outlook for these.

Regarding investment in Crypto Assets they meet all the factors necessary to qualify as a superior alternative asset: transportability, liquidity, security and immutability in ownership. As per the chart below, amongst both high- and lower-income groups, the main reason to own crypto assets is firmly still as an investment opportunity and for diversification benefits.

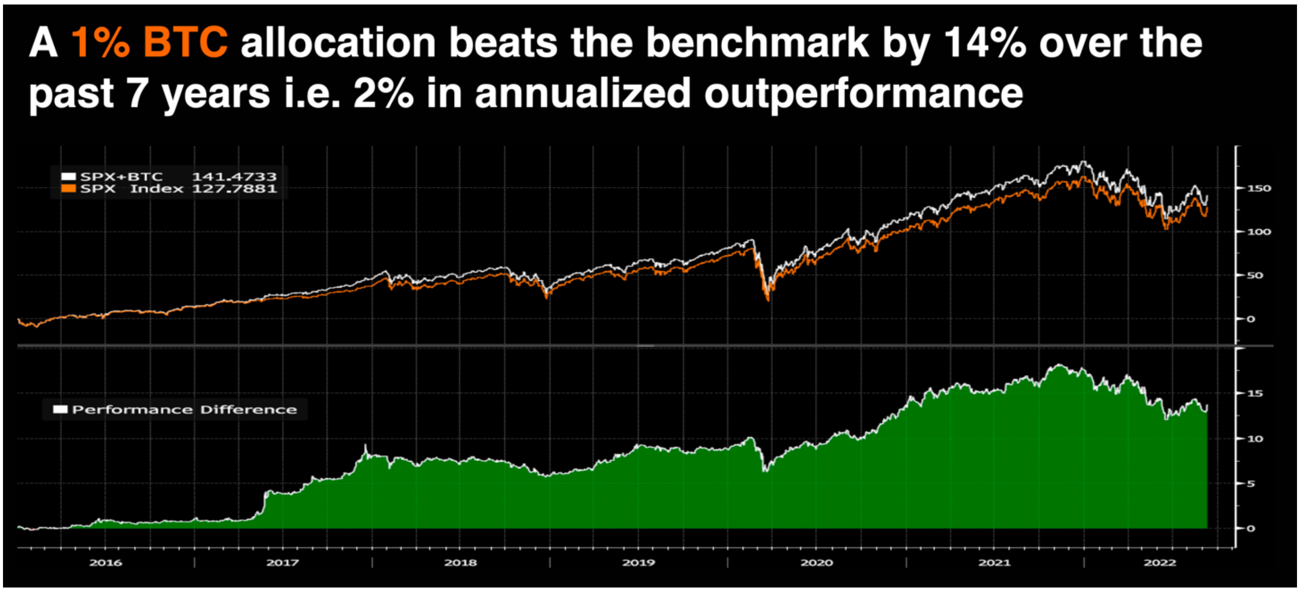


Source: Block Inc Report, 2022.

The Investment Case for Crypto

We believe we are at the tipping point of a very rapid surge in adoption of Crypto Assets, and this is underpinned by the actual growth in both institutions and government as detailed in past newsletters, combined with the private sector seeking independent alternatives for everything from money transfers to loans being enabled by DeFi alternatives and the further potential provided in Web3.0.

Most Institutional investors raise concerns around risk and volatility of the crypto asset market. However, it can be seen empirically that a simple 'buy-and-hold' strategy with an allocation as small as 1% of an investor's portfolio has resulted in a 14% outperformance over the past 7 year as per the chart courtesy of Bloomberg's research below:



Crypto assets are well worth an allocation, especially given their significant upside potential in the form of a perpetual call option on the technology and asset class which we discussed in our last market commentary.

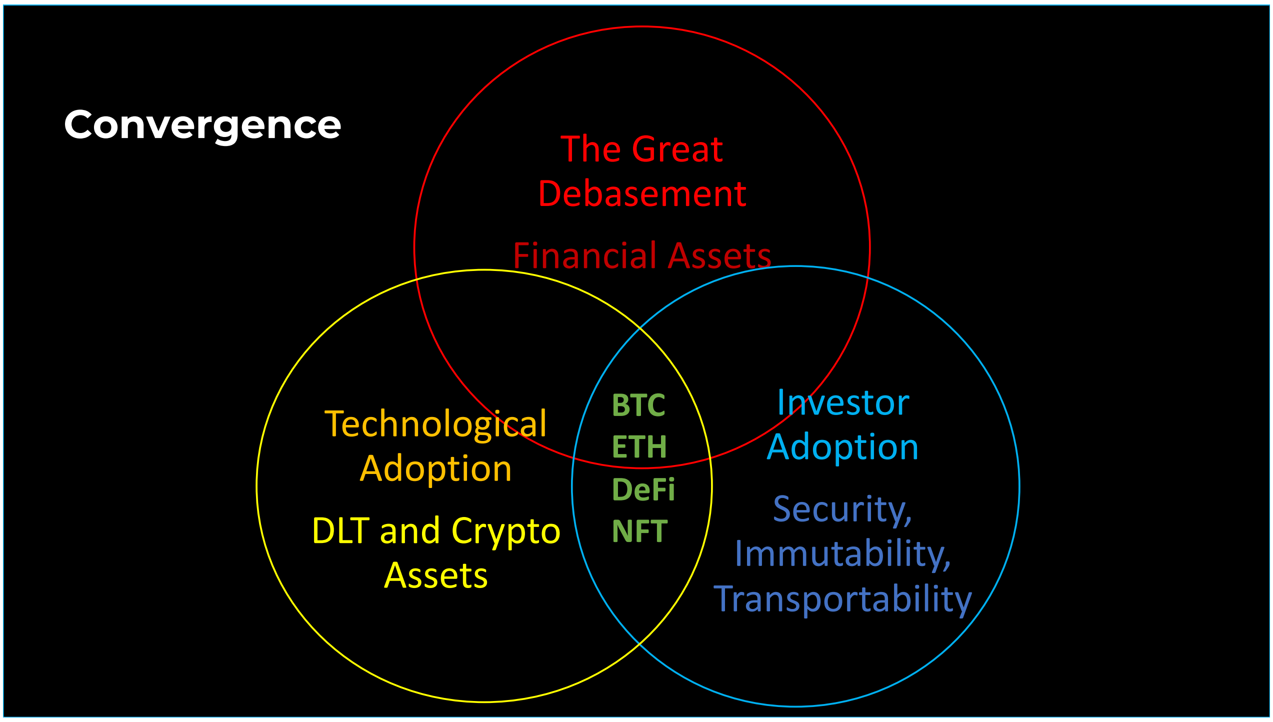
Conclusion

The global economy is undergoing a difficult transition as geopolitical and financial power shifts, in part due to global investors losing faith in the US Dollar. As stated previously, the crypto asset market is an authentic market as with crypto assets there are no bailouts for customers or mismanaged / fraudulent financial intermediaries, unlike the regulated fiat world. In crypto, the market clears bad actors and the protocols with real-world use cases grow more resilient.

The continuing stress in the banking sector reinforces our cautious approach toward corporate credit, particularly lower-rated areas such as senior secured bank loans. The risk, particularly from debasement through inflation, in having your assets in any centralised ledger such as bank or in any central bank-controlled fiat currency should be obvious for any investor who wishes to preserve and control their wealth.

More importantly, there is an anti-fragility that is built into the Bitcoin (BTC) protocol through immutable code and decentralization. In addition, unlike bank deposits or bonds, self-custodied BTC cannot be re-hypothecated, debased or confiscated and is accessible with an internet connection any time. If you control the keys, you control your assets.

We reaffirm that the three trends we identified and discussed in 2022 as per the graphic below continue to gather pace and will result in continued adoption and growth in the crypto asset space.



We continue to believe that this is the greatest opportunity for wealth creation and democratisation of access to capital and participation in the global economy and that this will give rise to the next unicorns, regardless of governments attempts to stifle it.

Please feel free to contact me should you have any enquiries.

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