Portal Market Commentary - September 2023

Market Update

Cryptocurrency and Digital Assets ("Crypto Assets") markets remained challenging in September with continued low volatility driven by subdued retail participation. This has been compounded by continued macro headwinds across the board. In addition, the escalation in global conflict sparked by the Israel/Palestine war has raised fresh concerns around inflation as oil has risen back above $90 barrel on supply concerns.

This could potentially lead to higher interest rates in the short term, but we still maintain that inflation and rates are headed down in the medium term, depending on the exogenous shock to oil prices driven by this renewed geopolitical tension.

Bitcoin (BTC) gained +3.8% in September and the market as represented by the CCI30 Index was up +3.8%. The Portal Digital Fund finished September flat. Pleasingly, the Radiance Multi-Strategy Fund was up 6.5%, driven mostly by our larger positions in BTC, ETH and SOL.

The Diversification Case for Bitcoin

Bitcoin gained almost 4% in September while many traditional assets suffered meaningful losses, underscoring our belief in crypto asset's diversification properties. As above, the pressure on global markets stemmed from rising government bond yields and higher oil prices. According to a recent article by the Block; *"The correlation between bitcoin's price and equities will continue to diverge over the coming months as the Federal Reserve's "higher rates for longer" narrative sinks in."*

Strong fundamentals played a key role as Bitcoin's on-chain metrics improved during the month. Stablecoin market capitalization steadied after declining over the last year and digital asset markets remained focused on developments around Layer 2 blockchains and the potential for spot Bitcoin ETF approval in the US market.

Despite encouraging signs for the crypto industry itself, the broader financial market backdrop may remain challenging for the time being. However, Bitcoin's recent stability suggests that its valuation could begin to recover once the macro backdrop improves going into the end of the year.

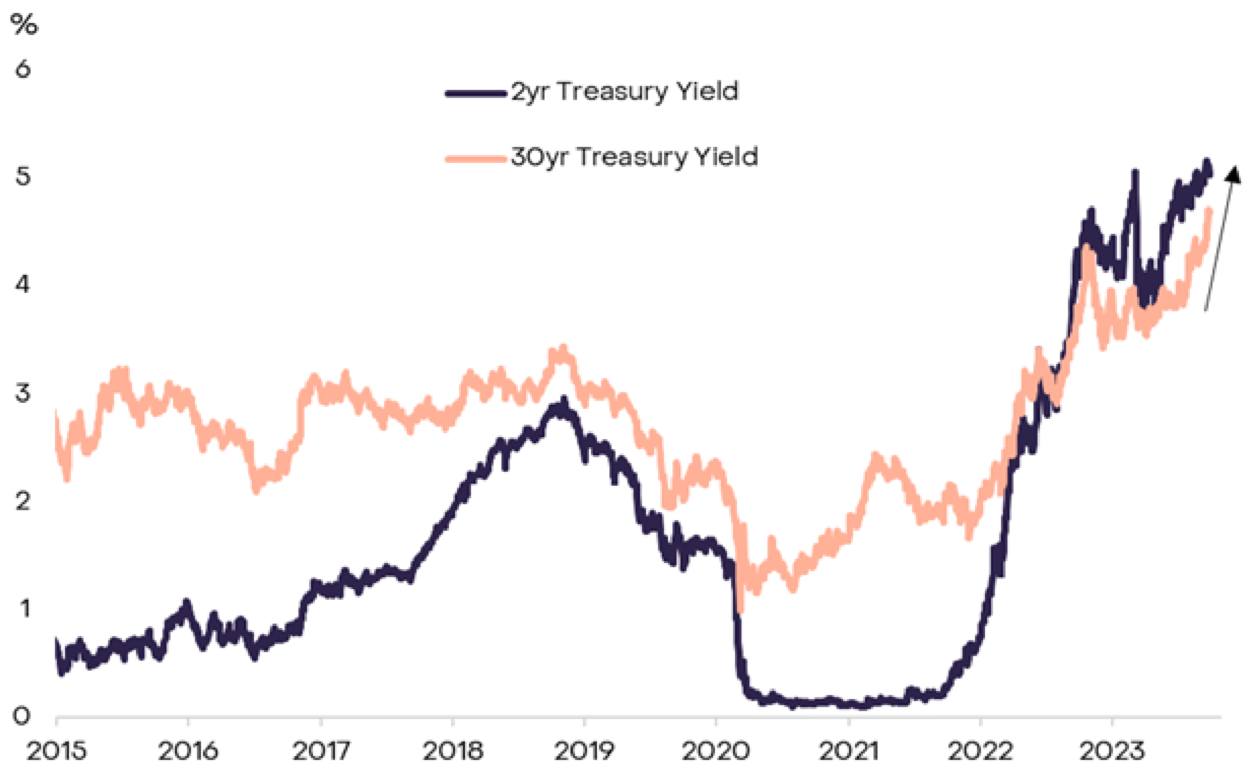
BTC's gain of 4% in September was a notable contrast to the meaningful losses for many traditional assets during the month as per Exhibit 1 below courtesy of Grayscale. Cryptocurrencies are now more correlated with other markets, but they have continued to provide investors with a degree of diversification through this challenging market environment.

BTC Provided Diversification Benefits to Traditional Asset Classes

Source: Bloomberg, Grayscale Investments. Indices are MSCI World ex-US Index, Barclays Global Aggregate Index, MSCI EM Index, Bloomberg-Barclays Global 60/40 Index, and Advanced Research Risk Parity Index. International equity returns expressed in local currency units. Data as of September 30, 2023. Past performance not indicative of future results.

The latest pressure on global assets seemed to emanate from the US bond market as per Exhibit 2 below. Part of this can be explained by the Federal Reserve. At its mid-September meeting, the central bank signalled that it will likely raise overnight interest rates one more time later this year, and that it may lower rates next year more slowly than previously expected. This resulted in short-term bond yields remaining under pressure and investors taking a continued risk-off attitude as further apathy for long-duration risk assets continues. The ”wait and see” malaise that has plague smarlets for the past year continues as investors hold higher yielding short term debt.

Higher Bond Yields Weighing on Global Markets

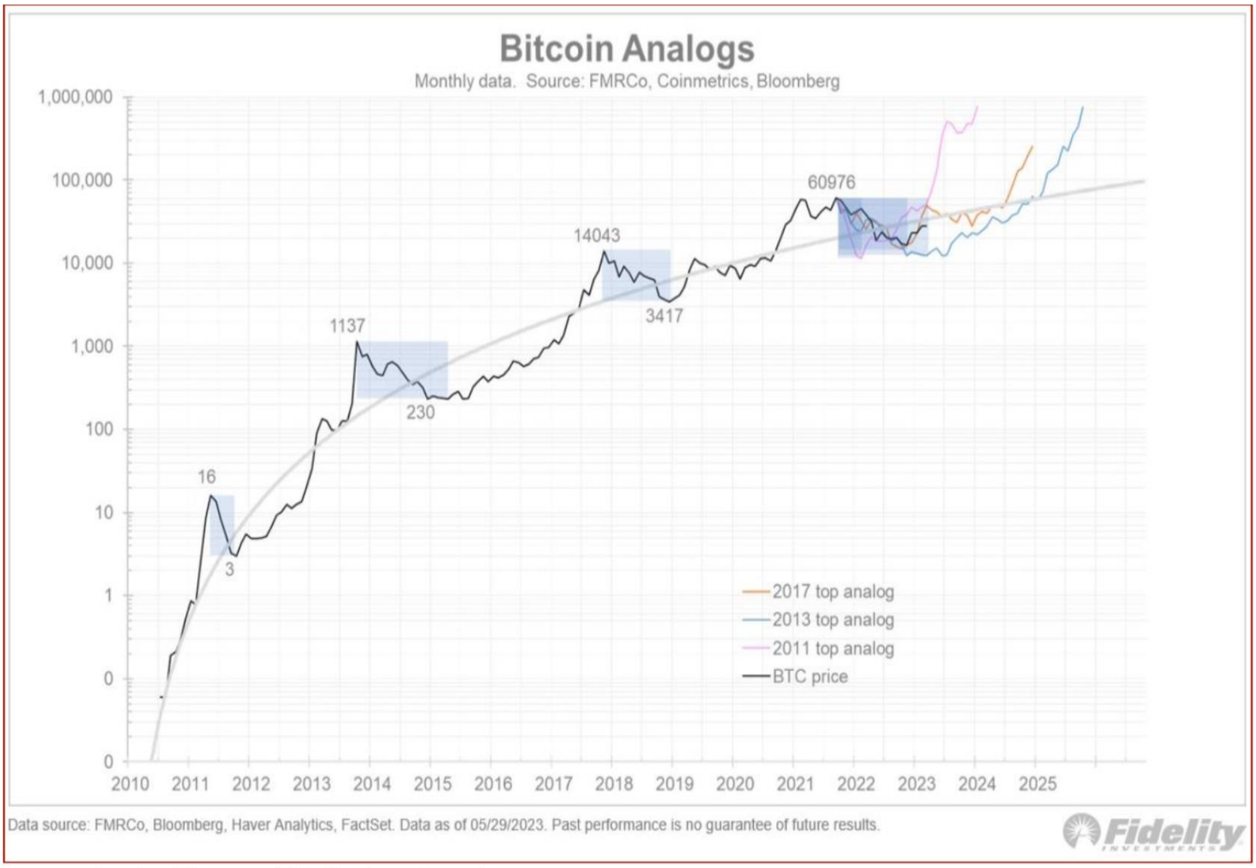


Source: Bloomberg. Data as of September 30, 2023. Past performance not indicative of future results.

The Investment Case for Crypto

We reiterate that 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.

In addition, cryptocurrencies are unencumbered. Judging by the relative smallness of the crypto market today (1.1 trillion), traditional savers and investors do not seem to care that all prevailing debt is denominated in fiat currencies, and that unencumbered cryptocurrencies will soon be available to replace them.



Source: Jurrien Timmer, Fidelity Investments

Exciting Developments In The Crypto Asset Markets

Firstly, Mastercard recently completed a central bank digital currency (CBDC) trial in collaboration with the Reserve Bank of Australia (RBA) and the Digital Finance Cooperative Research Centre (DFCRC). The project explored Mastercard's capabilities to enable CBDC transactions on the public Ethereum blockchain.

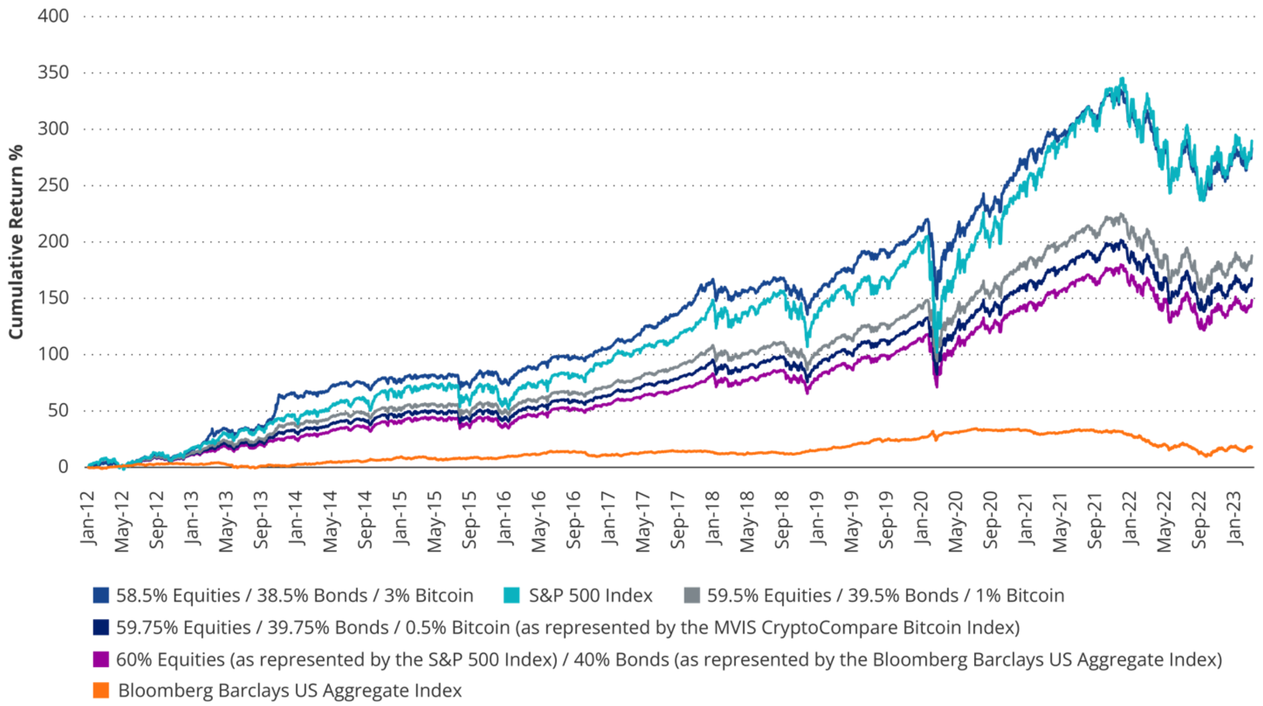
Secondly, Bloomberg analysts Eric Balchunas and James Seyffart predicted in a note yesterday that a spot Bitcoin exchange-traded fund (ETF) has a 90% chance of approval by January 2024.

Impact of a Crypto Allocation on Diversified Investment Portfolios

The crypto market is effectively long-term "VC-like" investing with real-time, public market pricing and liquidity. The biggest positive in allocating to the market is the ability to own liquid assets that can generate returns far superior to those in other markets. The obvious negative is the potential to lose all of one's investment via direct token investment.

The risk of significant capital loss can be mitigated by allocating across various digital asset sectors by use case and time horizons and by limiting one's allocation to the digital asset class to a smaller position, around 2%-5% of a portfolio. This small allocation to the crypto market that could rise by 10x or 20x in the next bull market would likely be a meaningful wealth creator.

As per the chart below, crypto assets are well worth a 3% 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 previous market commentary's.



Conclusion

We continue to believe that crypto assets are 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.

From a regulatory perspective, the safest way for allocating in a compliant and efficient manner to the public crypto market is through a dedicated, regulated, financial service license-compliant cryptocurrency and digital asset focused fund with independent administrators and a fully audited track record that accepts suitable investors only.

Feel free to contact me should you have any enquiries.

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