

PORTAL

ASSET MANAGEMENT

Market Commentary - July 2022

1. Market Overview

July saw cryptocurrencies and digital assets (“crypto assets”) break their last three consecutive monthly drawdowns, with BTC returning +17%, and the overall market represented by the CCI30 Index returning +28%.

After the severe market capitulation in June mostly driven by liquidations due to the freezing of Celsius and hedge-fund Three Arrows contagion, we



saw volatility begin to subside in July as investors began putting funds to work following a 70%+ peak to trough drawdown over the past 7 months as per the chart below.

A big driver of renewed interest is the update from Ethereum of the positive progress towards its supply-reducing "merge" or switch to a "Proof-of-Stake" consensus mechanism expected mid-September, which will reduce costs, energy usage and increase volumes substantially.

It seems there is now a consensus view that inflation will peak and fall more rapidly than expected towards the end of 2022, giving the FED cause to pause and slow rate hikes. This is evidenced by the fall in oil prices back to the levels seen prior to the Russia -NATO conflict in February.

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Crude Oil WTI Futures, (CFD):T, D



This reversal supports our belief that this is supply-side driven inflation and other suppliers such as Venezuela and Nigeria will step in to take advantage of the opportunity and increase production, whilst consumers will also turn to substitutes. The main concern now is reduced gas supplies to the EU and the knock-on effects of reduced nitrogen and fertiliser production for the food chain in 2023. The markets are forward predictors

and will begin pricing in renewed QE and interest rate cuts as the USA and world slides into recession in H2 2022.

2. Fund Positioning

We believe that risk assets have formed a bottom and have consolidated at current levels. Broad market moves across all asset classes over the past 7 months have been driven by macroeconomic conditions. Currently, the US is already in recession - technically defined two quarters of back-to-back output contraction for the past 70 years. High inflation and slowing economic growth results in stagflation as we are witnessing in the current environment. This poor outlook calls for accommodative monetary policy looking forward which drives asset prices as we have seen since 2008.

The overall perception in terms of market price has been negative but the underlying news flow continues to be bullish, particularly the successful launch of Brevan Howards \$1 billion hybrid VC and liquid crypto asset fund.¹ This is a significant development and by far the largest commitment to crypto assets by a traditional finance fund manager. The global-macro-focused Brevan runs about \$23 billion overall across a wide range of asset classes. We believe that other hedge funds will follow.

Another very positive development is Blackrock, the worlds largest asset manager with \$10 trillion in assets, selecting Coinbase to provide Aladdin clients access to crypto asset trading and custody.² We expect Vanguard and State Street to follow suite.

In conclusion, even after this initial 30%+ rally, we still believe that this represents an incredible buying opportunity as developments in the DeFi space are still forging ahead despite the large correction in the market since November 2021. Accordingly, we will begin slowly increasing our exposure to some of the medium and higher volatility funds as we are very bullish on the cryptocurrency and digital asset market on a 12–18 month view.

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

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¹ <https://www.hedgeweek.com/2022/08/08/316610/assets-brevan-howards-crypto-hedge-fund-top-1bn>

² <https://blog.coinbase.com/coinbase-selected-by-blackrock-provide-aladdin-clients-access-to-crypto-trading-and-custody-via-b9e7144f313d>

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