

# P RTAL

## ASSET MANAGEMENT

---

### Market Commentary - May 2022

---

#### 1. Market Macro

May was a deceptive month as there was a flight to safety due to the UST/Luna collapse, with the result that Bitcoin and Ethereum were only down -16% and -27% vs many other leading alt coins down as much as -50% to -70% in some instances. As discussed in our April Market Commentary inflation expectations are being driven by unrelenting pressure in energy prices and worries around disruption to the food supply chain. We believe that these are now being overhyped.

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 supply-side driven inflation and other suppliers will step in to take advantage of the opportunity. Consumers will also turn to substitutes. 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. UST / Luna

Recap: From May 7-11, the Anchor Protocol experienced a massive outflow resulting in around \$40bn in cumulative losses. This Anchor Protocol, which was essentially meant to be the bank of the Terra network, experienced more than \$10bn of withdrawals. (i.e a run on the bank)

The protocol loaned out the quasi-stablecoin UST that was backed by LUNA, the Terra network token. Their draw in terms of staking and lending was offering 20%

interest on deposits of UST and charging 8% interest on loans of UST. These were both shorted heavily as the market was further manipulated and both the protocol and related tokens collapsed causing LUNA to drop 99%. Estimates are of a cumulative loss for the market of about \$10bn on UST deposits and \$30bn in LUNA market value.

We must remember that this is a nascent and emerging disruptive technology and subject to higher-than-expected volatility. In some instances, this technology is untried and unproven and relatively illiquid, so therefore can also be subject to price manipulation. Unfortunately, this is to be anticipated when investing in the emergence of this new technology.

### **3. Lessons in Money Management**

In my experience, reversion to mean is one of the most powerful forces in financial markets, and in general very volatile markets to the downside tend to be followed by just as volatile markets to the upside as selling is exhausted and fresh capital enters the market.

In this instance what we need to try and ascertain are the following:

1. Has consumer inflation peaked, and will it begin to fall?
2. Has the FED regained consciousness and signalled a terminal FED funds rate?
3. Will this spark a return to risk assets and a rally in crypto?
4. Will crypto decouple when investors realise that there is no earnings visibility in equities, fixed income, and real estate, but real growth in the digital asset space, driven by VC investment and many new funds being launched by established players.

These are the factors we will monitor as we seek to increase allocation to higher risk funds. My overall response to these four questions is a balanced and cautiously confident "yes", but our visibility is limited until we see inflation begin to ease.

#### **4. Fund Positioning**

We discussed this expected market turmoil towards the end of last year, and we have been well positioned for what's unfolding with the highest cash levels since the PDF's inception. More than 55% of our Fund has been invested in cash and low volatility / market neutral funds, and only around 30% of FuM is deployed to higher volatility funds that will have had large drawdowns in line with the market.

Overall, we 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 this past week. I do believe that this is bottoming out as the selling is exhausted. Currently you can buy BTC at \$28,000, ETH at \$1500 and DeFi dapps are trading at or below book value, whilst Web3 dapps are trading at 1-2X Forward Price Earnings. This is the cheapest they have been since March 2020.

#### **5. Outlook**

We reiterate our view from our recent market commentary: Although we expect that there could be further downside in the short term as BTC and crypto assets in general continue to trade in line with other risk assets, we remain convinced that there will be a decoupling of crypto assets as their adoption and user base continues to grow at triple digits annually, driving their earnings, community growth and valuations.

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

Contact: E: [mark.witten@firstdegree.asia](mailto:mark.witten@firstdegree.asia)  
[www.portal.am](http://www.portal.am)

W:

**Disclaimer:**

*This document does not constitute an offer of Participating Shares in the Fund. The offer of Participating Shares is made solely pursuant to the Offering Memorandum for the Fund dated 10 February 2020 (the "Offering Memorandum"), and an application for subscription for Participating Shares may only be made by completing and returning the subscription agreement issued by the Fund (the "Subscription Agreement"). Copies of the Offering Memorandum and the Subscription Agreement may be obtained from First Degree Global Asset Management Pte. Ltd., the Investment Manager of the Fund.*

**Notice to Investors in Switzerland: This is an advertising document.**

*The Confidential Offering Memorandum, the Articles of Association as well as the annual reports of the Fund may be obtained free of charge from the Swiss Representative. In respect of the Shares distributed in Switzerland to Qualified Investors, place of performance and jurisdiction is at the registered office of the Representative.*

- *Swiss Representative: FIRST INDEPENDENT FUND SERVICES LTD, Klausstrasse 33, CH-8008 Zurich.*
- *Swiss Paying Agent: NPB Neue Privat Bank Ltd, Limmatquai 1/am Bellevue, P.O. Box, CH-8024 Zurich.*

**CAR Email Disclaimer:**

*This email is for informational purposes only. It does not constitute investment or financial advice nor an offer to acquire a financial product. Before acting on any information contained in this email, each person should obtain independent taxation, financial and legal advice relating to this information and consider it carefully before making any decision or recommendation. To the extent this email does contain advice, in preparing any such advice in this email, we have not taken into account any particular person's objectives, financial situation or needs. Furthermore, you may not rely on this message as advice unless subsequently confirmed by letter signed by an authorised representative of Portal Asset Management Pte Ltd (CAR). You should, before acting on this information, consider the appropriateness of this information having regard to your personal objectives, financial situation or needs. We recommend you obtain financial advice specific to your situation before making any financial investment or insurance decision.*

*This email is for the use of the intended recipient only and may contain confidential information. Any unauthorised use of the contents is expressly prohibited. If you receive this email in error, please contact us, and delete all copies of the email. Before opening or using attachments, please check the attachments for viruses and defects CAR does not accept liability for any loss or damage however caused which may result from this communication or any files attached. CAR collects personal information to provide and market our services. For more details about the information's use, disclosure or access, you may obtain a copy of our privacy policy upon request.*

*Portal Asset Management Pte Ltd is a Corporate Authorised Representative (CAR Number 001293080) of Boutique Capital Pty Ltd ACN 621 697 621 AFSL No.508011*