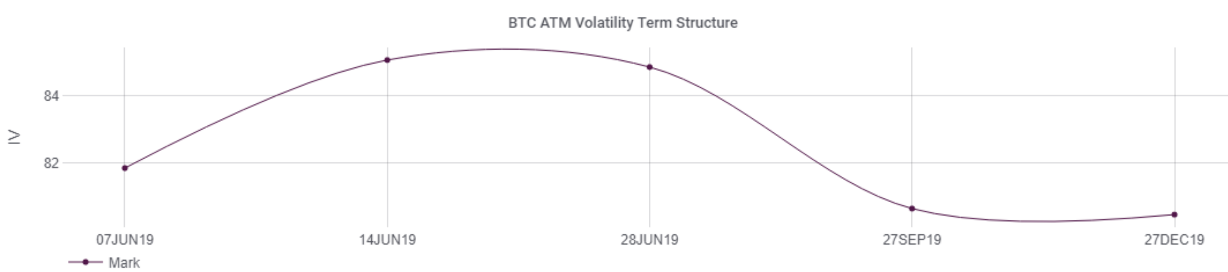
MARKET UPDATE

The past week has packed a jolt of volatility for BTC, rising above 9000 before retracing to the mid 7000s. The metrics that were fueling the tailwinds in the multi-week rally also appear to be subsiding, though some remnants of bullish indicators still hold ground. Though we remain constructive, we find the absolute levels of volatility encouraging to provide effective hedging mechanisms for pure delta exposures. We would lean towards a period of consolidation before regaining upward momentum.

The BTC market

Volatility term structure is beginning to flatten again, as back-end remains heavy while front-dates remain elevated due to the perceived desirability of gamma amidst stop-gap moves. RR has also twisted, with front-end having flipped for puts, while calls regain favour further out the curve. We would expect a period of consolidation to allow for further convergence, with 80vol (ATM) being an important inflection point in the vol-of-vol regime.



Further, in the linear market, perpetual swaps are beginning to align with their underlying indices, and even trade at a marginal discount. Should this continue, we'd expect futures backwardation to follow, with the implication of marginal support in spot prices (note: this phenomenon is but one determinant of recent directionality).

Taken together, though we would heed to a pause for thought, it would not materially alter our positive outlook. The strongest tailwinds - the byproduct of the turbulence in global markets- are only gaining in strength.

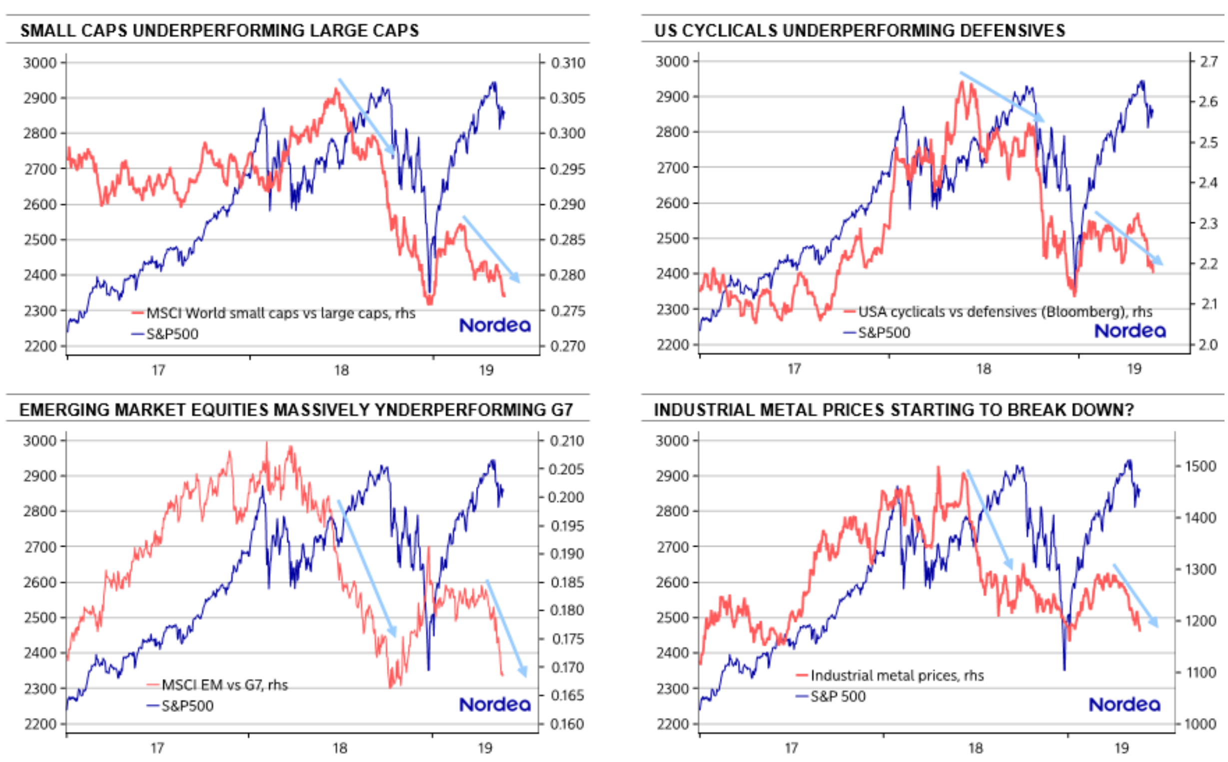
Macro market

As important as it is to observe the metrics native to BTC, it is becoming equally important to observe the activity on the periphery, and more specifically, with regards to the treatment BTC is receiving in its probable incorporation into the global-macro toolkit.

As equity markets seesaw in a historically low vol environment, the case for easing in the US is mounting, with 58bps of cuts priced in by end of next year. This is despite one of the tightest employment rates of all time and an equity market just 5% off of all-time-highs. Whether the Fed delivers or not, BTC should be seen as a beneficiary; easier policy will give it credibility by way of fiat debasement and political overreach, while tighter policy will likely accelerate the rotation out of growth stocks into 'real-asset' alternatives (the digital gold narrative).

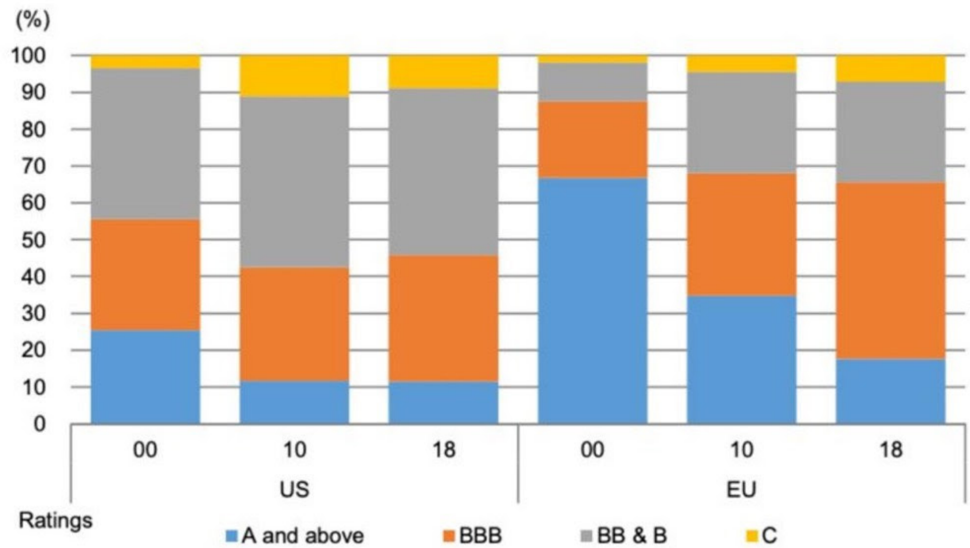
A few key charts, put forth by Odin River, showcase the troubles that could spill over.

THE CURRENT MARKETS ARE ALREADY SHOWING A VOTE OF NO-CONFIDENCE IN TRADITIONALLY GROWTH/RISK POSITIVE ASSETS



Source: Bloomberg, Macrobond and Nordea Nordea

MEANWHILE CREDIT QUALITY CONTINUES TO DETERIORATE, NOTABLY AMONGST EUROPEAN SOVEREIGNS



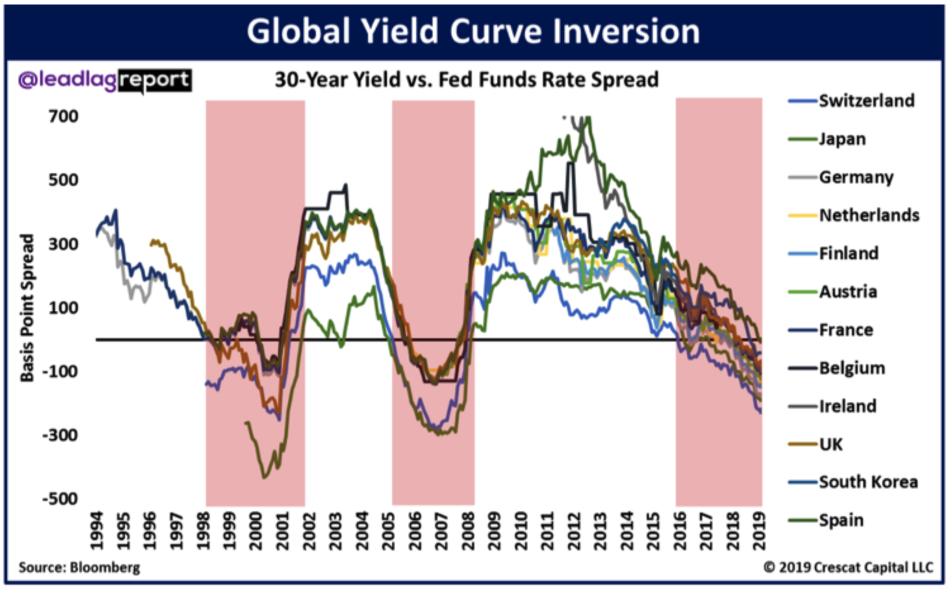
Source: Nomura, based on BIS Quarterly Review, March 2019

ALL THE WHILE NEGATIVE-YIELDING DEBT CONTINUES TO CLIMB

Figure: Negative Yielding Bond Value as % of Total
Proxied by using Bloomberg Barclays Global-Aggregate Bond Index (23515 members as of 5/29/2019)

Source: Fundstrat, Bloomberg, Factset

AND RISK-PREMIUM IS ERODED FOR MOST EVERYONE WITH SYSTEMIC SIGNIFICANCE



We are of the view that anecdotal evidence like the aforementioned (and there is a lot of it), would only funnel positively for an asset class that advocates trustless accountability.

And in observation, many of the fingerprints from the weeks past, hint that more traditional market participants may be looking at BTC from a similar lens.