



# ZEROCAP

## Monthly Investment View

June 2022

**Zerocap** provides digital asset investment and custodial services to forward-thinking investors and institutions globally. Our investment team and Wealth Platform offer frictionless access to digital assets with industry-leading security. To learn more, contact the team at [hello@zerocap.com](mailto:hello@zerocap.com) or visit our website [www.zerocap.com](http://www.zerocap.com)

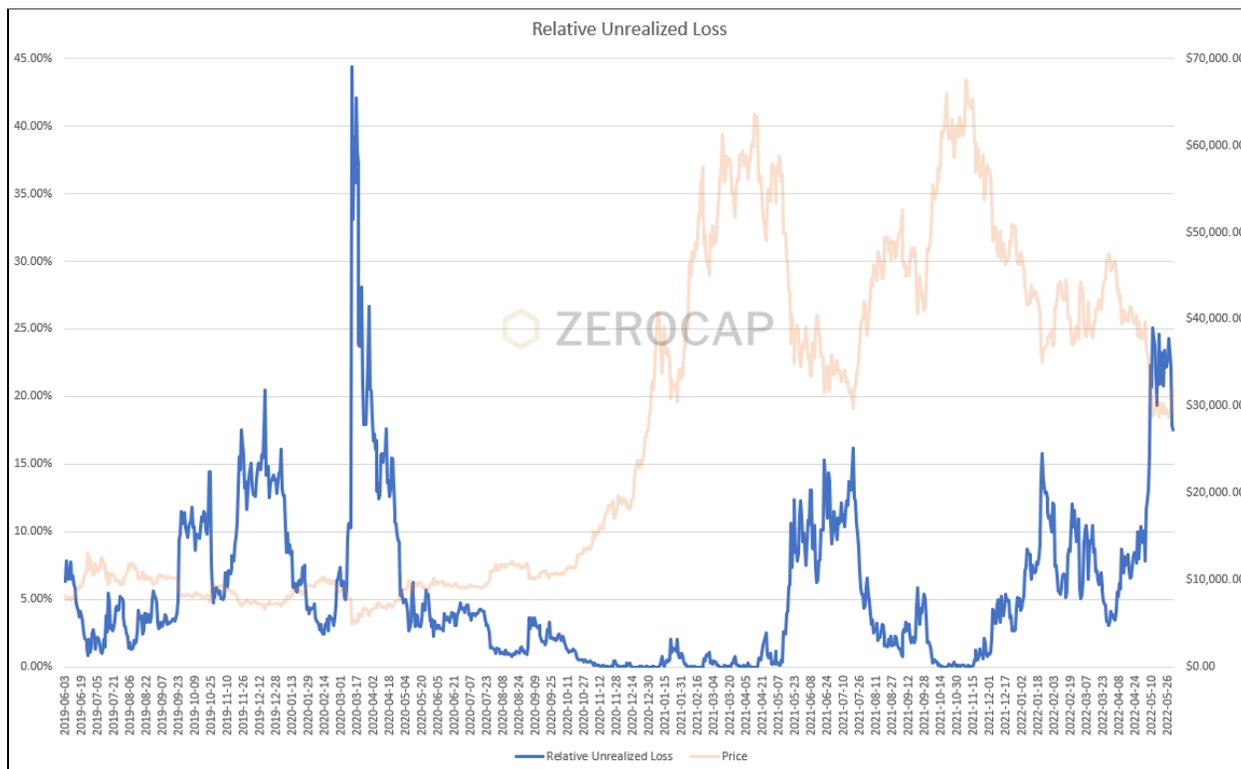
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May posed a challenging month for money managers without short exposure (or long energy) as global markets sold off aggressively and volatility spiked. Eight straight weeks of negative returns have shaken investors, as large indexes such as the NASDAQ and S&P 500 continued to erase a significant portion of the gains experienced on the back of the 2020 Covid rally.

Inflation and increasingly hawkish central banks have led to a liquidity crunch as market participants flee to safe havens and company valuations become increasingly far fetched. Geopolitical tensions also ticked up during May with Sweden and Finland in the running to join NATO, much to Russia's distaste.

While the newsflow and shock value surrounding the Russia/Ukraine affairs has dampened, the threat of escalation in the region is increasing. As we move into June, the likelihood of meaningful relief in any of the aforementioned market drivers looks unlikely. Although with the recent bout of volatility and simply how far markets have fallen, it would not be unreasonable to expect a bounce as the market evaluates any potential justification for further moves in either direction.

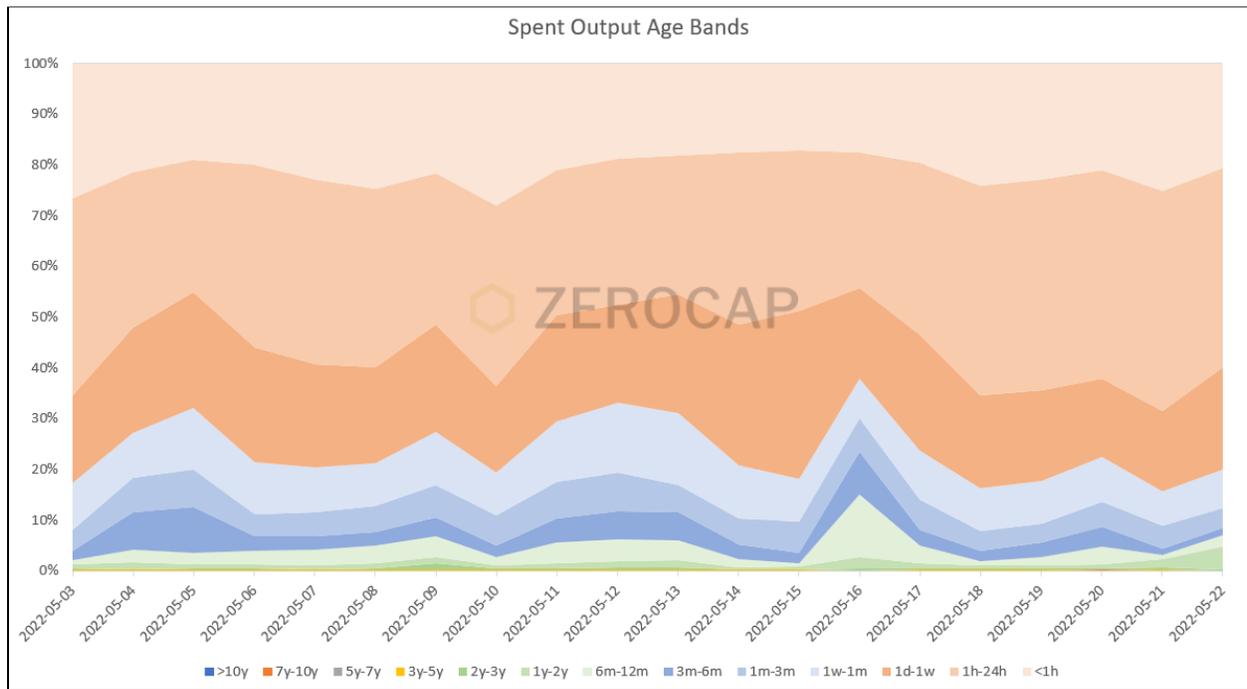
Crypto markets experienced a drastic drawdown as global markets offloaded risk assets. The culmination of macro influence and forced selling pressure off the back Luna's ecosystem capitulation saw the third 15% + monthly drawdown this year, with 23% of holders sitting in unrealized loss at the lowest point (levels not seen since March 2020).



A key focus in recent months has been the behavior of long-term holders and miners, and using this data to track how high conviction participants are positioned. May marked the first month of consistent net selling amongst both parties since last year, a result of the aforementioned influences alongside systemic risk fears, a significant loss of key support levels and volatility uptick.

It is important to note that while long-term on-chain data has reliably segregated wallets, the 155 day band now includes all of those that purchased before the new year, capturing a majority portion of the retail crowd that purchased in the early 2021 run-up and July 2021 run-up. In the eyes of the firm, there is reduced certainty surrounding the long-term conviction of these buyers making for a less reliable “long-term holder” label at present.

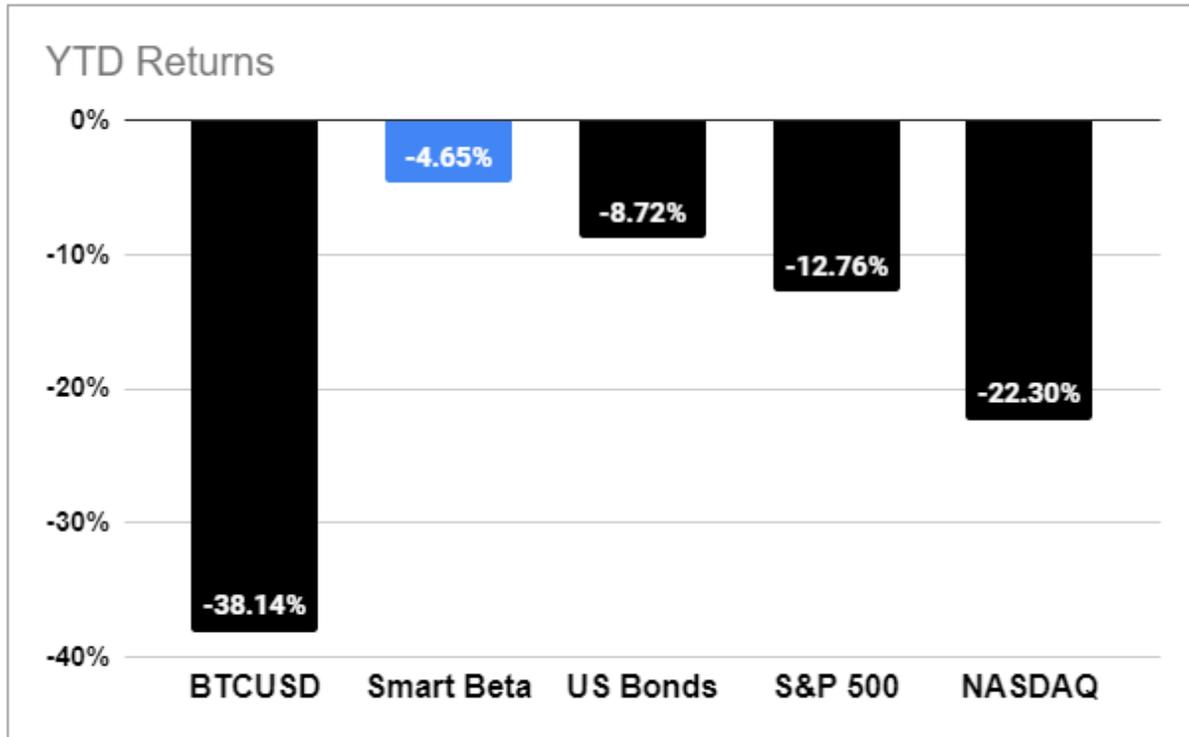
When looking at the age bands of spent BTC, we can see that while there has been a consistently small offload of coin supply held 5 years +, the majority of long-term holder sell-side during May has come from wallets holding for less than 12 months. In fact, the rally leading into month end resulted in net accumulation in every age band > 12 months.



Similarly, when segregating by wallet balance it becomes clear that addresses with  $\leq 10$  BTC have been accumulating consistently over the course of the year including May, while balances from 10-10k BTC have been net sellers over the same period.

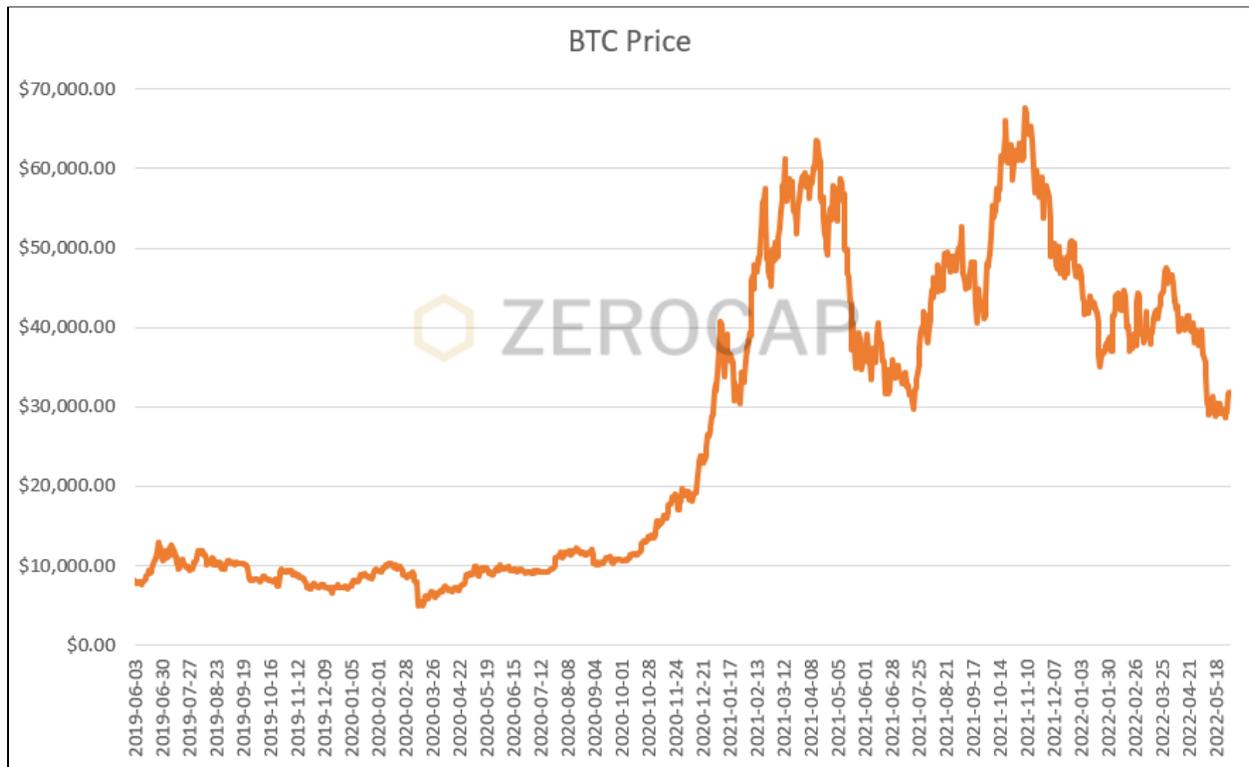
Interestingly, balances with 10k+ BTC snapped up as much as 0.6% of BTC's circulating supply in May. This paints a unique picture of long-term whales drip feeding supply to smaller holders whilst the largest holders continue their periodic accumulation presumably due to high conviction and a view that BTC is trading at a long-term discount. We tend to agree. The news only has to get 'less bad' to see a meaningful bounce back into the range, and given geopolitical issues around NATO, we could see BTC dislocating from broader markets on the back of sovereign risk flows. The current environment is ripe for our Structured Products on the back of this environment.

Throughout May, Zerocap's trading desk has seen heightened defensive flows, particularly in two areas: those wishing to hedge downside exposure whilst still holding their portfolio and those wishing to accumulate or monetise the heightened volatility to limit any negative impact on their holdings. The outperformance of Smart Beta has been a key focal point for the firm, returning -4.65% YTD vs BTC's -38.14% YTD, protecting traditional investors with BTC exposure from blowing out their return profiles due to the fund's equity matched volatility offering.



We also successfully launched the industry's first Bitcoin principal protected note with the majority of flow hungry for non-negative return profiles at a time when everything is bleeding.

Zerocap's ability to structure any bespoke product to protect and monetise our customer base's portfolios has been second to none this month with a number of custom structures being entered. For those interested in learning more about how Zerocap can optimize your portfolio please reach out to your relationship manager.





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Despite short-term uncertainty, moving to a higher timeframe view helps to understand why value buyers are continuing to accumulate. Industry growth in the last three years has been exponential. It is important to note that the fundamental adoption drivers that led to asset price appreciation and the industry's immense growth have not changed. For those that believe the cryptocurrency market will positively influence the world over the long term, current price levels mark an opportunity that may not be seen again.

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You should be aware that dealing in products that are leveraged carries significantly greater risk than non-leveraged products. As such, you could both gain and lose larger amounts. You may even sustain losses well in excess of your initial deposit and also in excess of the margin required to establish and maintain any positions in the leveraged products. Accordingly, you should carefully consider whether leveraged products are appropriate for you in light of your financial circumstances and risk profile.



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\* Index used:

Bitcoin	Ethereum	Gold	Equities	High Yield Corporate Bonds	Commodities	Treasury Yields
BTC	ETH	PAXG	S&P 500, ASX 200, VT	HYG	SPGSCI	U.S. 10Y