ZEROCAP
Monthly Investment View

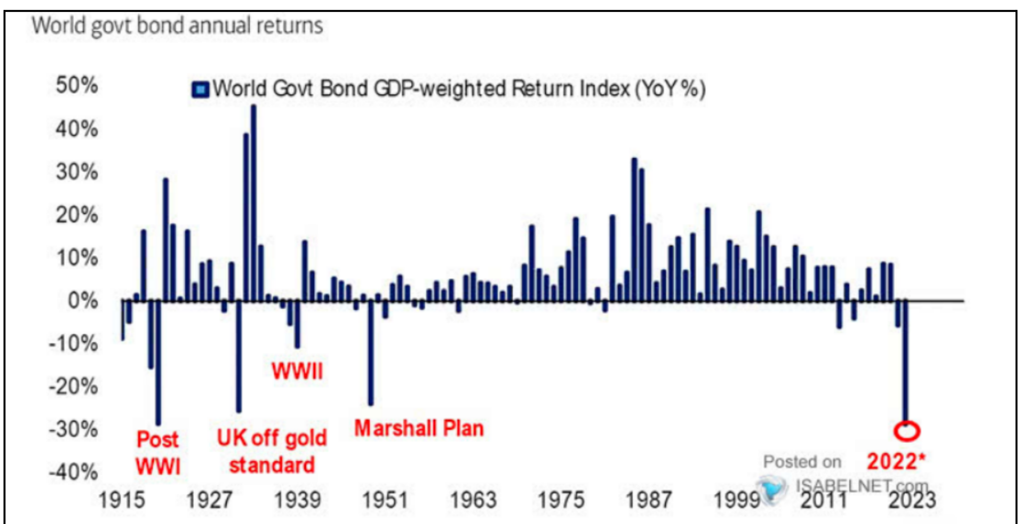
July 2022

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 or visit our website www.zerocap.com

Investment View

June posed a troubling time for the crypto space as industry giants collapsed, placing downward pressure on asset prices due to forced selling. The macro environment continues to weigh heavily on liquidity conditions. The same themes present in previous months continue to spook investors and have forced defensive portfolio adjustments. Inflationary concerns and supply chain restrictions have been met with quantitative tightening, interest rate hikes and a continued pullback from a state of globalization. Increasingly, stagflation and recession fears are shaping a view that the Fed is behind the curve.

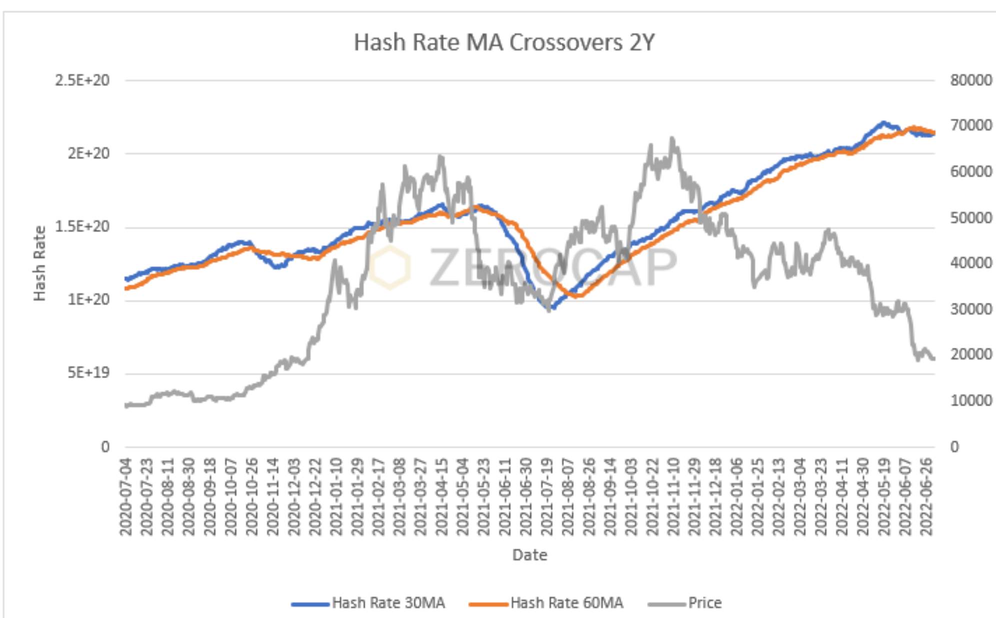
To highlight the extent of market disruption, world government bond markets have seen the worst performance year since 1865.



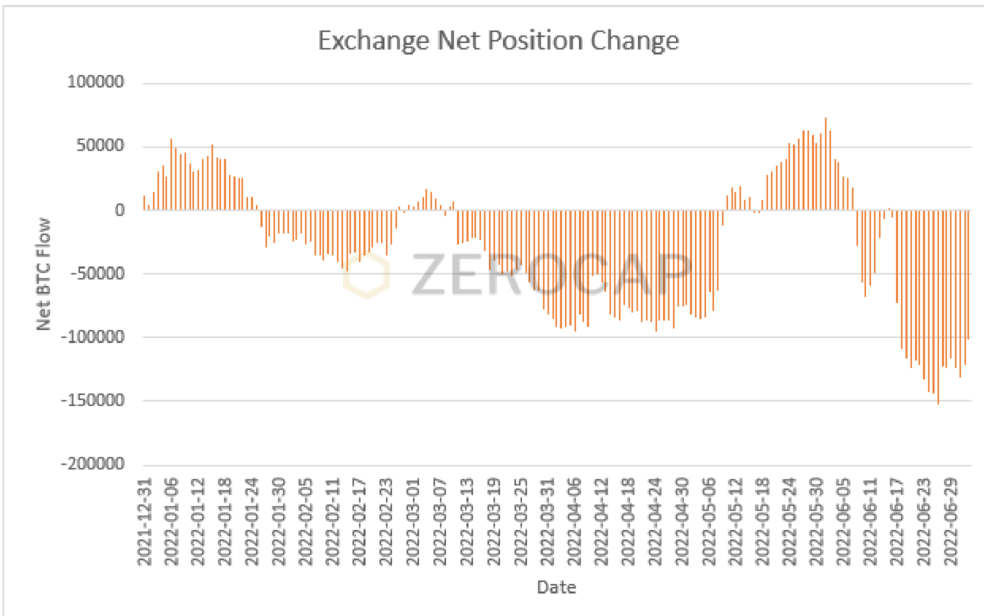
Source: BofA Global Investment Strategy, Global Financial Data, *2022 YTD annualized

June revealed the fallout from months of price drops as well as a host of crypto-related exploits, chain collapses and asset de-pegs. Large firms such as Celsius and Three Arrows Capital were unwillingly liquidated on large positions as a result of the above, shocking many. Ethereum-based DeFi protocols saw circa $300M in liquidations over the month with exchange-based liquidations in the billions. Perhaps the most devastating deleveraging occurred in the private lending space with numerous counterparties such as the above defaulting on billions of dollars of outstanding debt.

Due to the drop in BTC price, we have seen the beginning of a miner capitulation as they are forced to sell treasury reserves in order to pay expenses. This occurs as the profitability of mining rigs drops in dollar terms alongside BTC price. In the chart below, the 30D moving average of Bitcoin's hash rate has fallen below that of the 60D moving average suggesting that miners are coming offline due to a reduction in profitability. While this marks a concern for short-term price action, mining difficulty is readjusted bi-weekly. Any sustained drop in hash rate will cause a difficult decrease which should incentivise more miners to come back online and reduce selling pressure from this cohort in the medium-term.

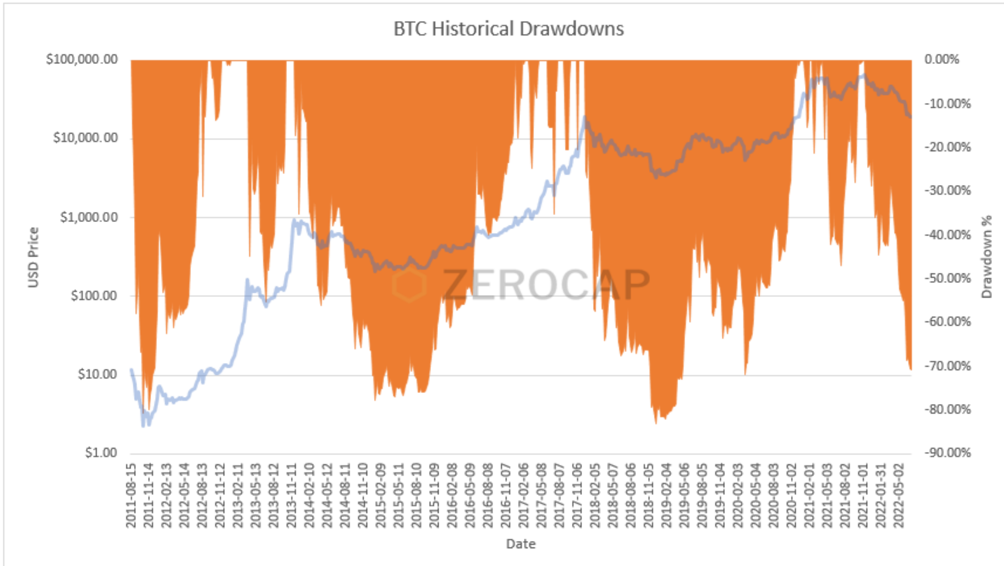


Exchanges saw their largest net outflows ever recorded (151,500 BTC) in the aftermath of price drops and a spike in counterparty risk fears. Celsius pausing withdrawals combined with uncertainty surrounding exchange solvency and their asset ownership led to panic.

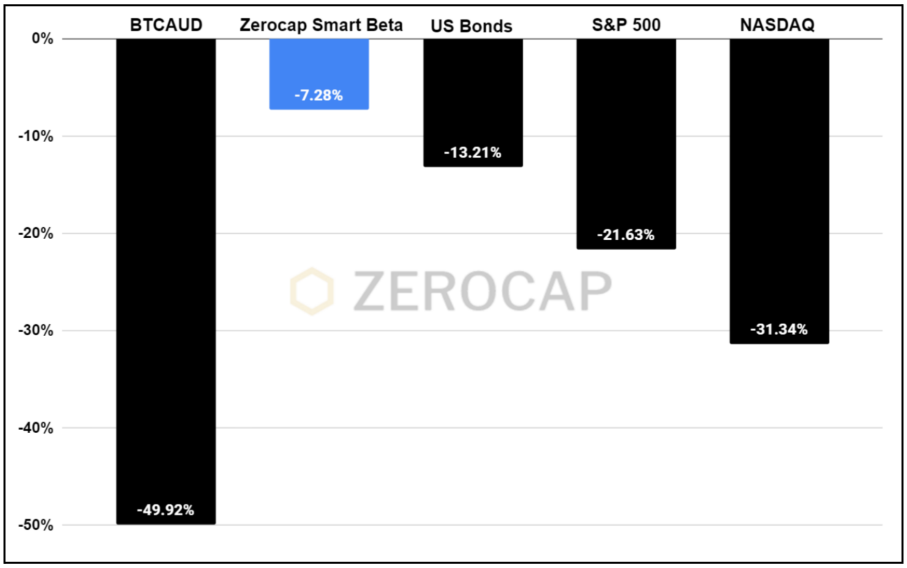


At a time when trust is dwindling in the space, it is important to remember that shifting holdings to a regulated custodian such as Zerocap enables self-sovereignty embedded in its legal contracts, whilst providing institutional-grade security and insurance is of fundamental value right now.

Looking ahead, the likelihood of continued second and third-order impacts from recent events is high. Whilst defensive positioning is still key, for long-term investors the opportunity to accumulate or build core BTC and ETH positions at current levels has been historically profitable. With billions in forced selling, widespread accumulation and a 70% drawdown off the highs, the asymmetric risk/return profile of investment at these levels has not been seen in nearly two years as pictured below.



Beyond spot accumulation, our Yield Entry Note yields have jumped off the back of heightened volatility and protection flows. For customers looking to earn yield at a time when credit lending is unfavourable, harnessing the options market makes sense. Beyond Yield Notes, the Structured Products desk is positioned to provide bespoke structures, all of which control risk and return structures to match your exposure preference. This is especially valuable to those concerned about downside risk. Finally, our Smart Beta Fund continues to outperform a host of markets by providing BTC exposure with dampened and equity-matched volatility.



Applying a range of simple risk management tools to your portfolio can change the risk/return relationship of investing in digital assets. Zerocap encourages investors to reach out on a variety of strategies the firm offers to control risk in such an uncertain time.

For those interested in any of the above please reach out to your relationship manager or email us at hello@zerocap.com.

Disclaimer

* 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