NYDIG | JULY 2022

Bitcoin **Brief**

Market Update

Bitcoin recovered 26% in July to $23,907, delivering its first positive month of performance since March. Crypto industry volatility subsided, and risk assets more broadly also fared well. The S&P 500 delivered its best month since October 2020, and the Bloomberg Aggregate Bond Index rallied 2.5% despite the Fed hiking its benchmark interest rate.

The cross-asset rally was partially driven by commentary from Fed Chair Powell that was seen as less hawkish than initially anticipated. Chair Powell indicated that, while the Fed could indeed raise rates at the September meeting, its policy stance and the pace of rate hikes should be assessed in the context of overall economic growth and that incoming data would be important. While this left the door open for a potential adjustment in policy and in tone at the next meeting, July's surprisingly strong payroll report suggests that monetary policy may remain restrictive, which could be a headwind for bitcoin and other risk assets.

SEC Complaint Has Regulatory Implications

The Department of Justice and the SEC brought insider trading complaints against three individuals for trading ahead of new asset listings on the Coinbase platform. The lawsuits, here and here, detail the efforts of the individuals—one of whom was a Coinbase employee—to profit from the price bumps that have historically followed a platform addition. Of the 25 cryptocurrencies these individuals traded, the SEC suggested 9 should be deemed securities, as determined by the Howey Test. The Howey Test uses four prongs to assess whether assets are securities: 1) an investment of money, 2) in a common enterprise, 3) with the expectation of profits, 4) derived from the efforts of others.

There are several takeaways from the SEC complaint, but perhaps the most important is that the SEC action was in line with a claim

HIGHLIGHTS.

- Market Update
- SEC Complaint Has Regulatory Implications
- Miners Turn Off in Texas
- Bitcoin Shrugs Off Tesla's Capitulation

MARKET STATS.

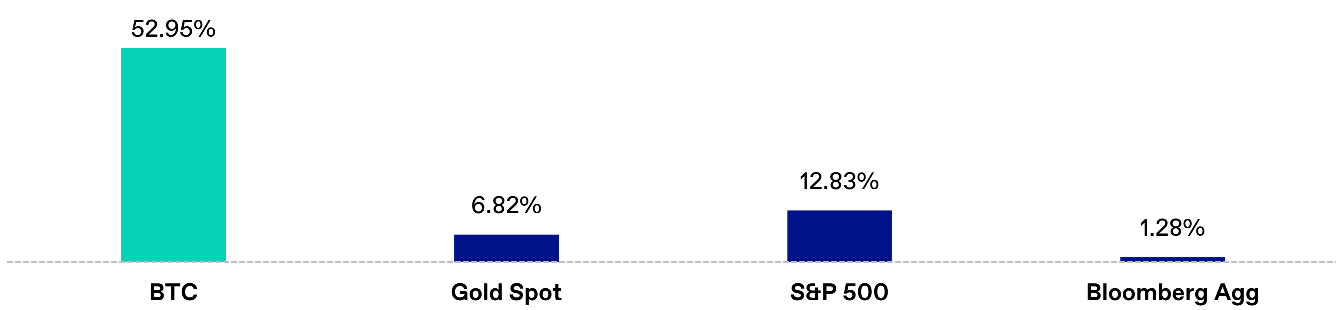
As of 7/29/22

BTC Price	$23,907
BTC Market Cap	$455B
% of BTC Total Supply in Circulation	>90%
3M Average Daily Bitcoin Transactions	~253K

NOTEWORTHY HEADLINES.

- NYDIG to Partner with New York Yankees for Bitcoin Benefits
- BIS May Allow Banks to Hold 1% of Reserves in BTC
- Scoring Bitcoin Points Like Digital Airline Miles
- July Marks Strongest Month of Crypto Fund Inflows This Year

5 Year Annualized Return



	BTC	Gold Spot	S&P 500	Bloomberg Agg
5 Yr Sharpe Ratio	0.88	0.49	0.73	0.07

it has made for some time—that many cryptocurrencies are illegal, unregistered securities over which it has authority. The SEC's determination that only 9 of the 25 cryptocurrencies were securities suggests that the federal securities regulator does not believe that all cryptocurrencies are securities. Finally, as SEC Chair Gensler has repeatedly stated, the SEC believes that it already has the appropriate rules and case law (i.e., the Howey Test) to regulate relevant parts of the digital asset universe. Unlike other digital assets, which face continued regulatory uncertainty, bitcoin is considered a commodity (as opposed to a security) from a regulatory perspective.

Miners Turn Off in Texas

The Texas heat wave and wind power standstill shed light on the fragility of the state's electricity sources, which were barely able to satisfy rising demand, as well as the benefits of bitcoin mining as an alternative power source during times of stress. In this environment, it has been economically advantageous for bitcoin miners to turn off their rigs at peak times. Bitcoin mining facilities fall into two categories: 1) those without long-term purchasing power agreements (PPAs) and 2) those with PPAs. Miners without PPAs are typically subject to daily price volatility of energy, making them price takers, which ultimately means that it may be advantageous to turn off their mining rigs during extreme weather events, when energy prices soar. While miners with PPAs face the same economic logic, they may instead choose to sell back pre-bought electricity at prevailing, higher market prices, which ultimately supplies energy back to the grid. By supplying electricity back to the grid at peak times based on economic incentives, miners can aid in strengthening grid stability as opposed to contributing to marginal demand for energy.

Bitcoin Shrugs Off Tesla's Capitulation

In February 2021, Tesla disclosed that it had purchased $1.5B worth of bitcoin and was planning to accept bitcoin as a form of payment. The news sent bitcoin soaring 15% and helped spark a rally that would take the asset from $40K up to $60K in a few short months. However, in May of last year, Tesla CEO Elon Musk tweeted that Tesla would not be taking bitcoin for payment because of environmental concerns, accelerating a severe drawdown in the asset over the summer months. Clearly, at the time, Mr. Musk's actions held significant sway over crypto markets.

Bitcoin has reacted less to Tesla news recently. Tesla's second quarter earnings release indicated that the company had sold 75% of its bitcoin holdings to improve the firm's liquidity profile. Following the announcement, bitcoin prices were only down 1.9% on the day, a stark contrast to the price action following Tesla's 2021 announcements. Bitcoin's lack of price reaction illustrates how short-term news may have less of an impact on bitcoin volatility given growing adoption of the asset and increased awareness of the long-term investment case. We will have to see if this is a trend that continues.

Performance	1MO	3MO	YTD	1YR	3YR*	5YR*
Bitcoin	26.53%	-37.62%	-47.88%	-40.07%	33.73%	52.95%
Gold	-2.29%	-6.91%	-3.46%	-2.66%	7.70%	6.82%
S&P 500	9.22%	0.39%	-12.58%	-4.64%	13.36%	12.83%
Bloomberg Agg	2.44%	1.49%	-8.16%	-9.12%	-0.21%	1.28%

*Returns greater than 1 year are annualized.

	5YR Standard Deviation	5YR Sharpe Ratio	5YR Correlation to BTC
Bitcoin	91.0%	0.88	-
Gold	12.9%	0.49	0.16
S&P 500	17.3%	0.73	0.35
Bloomberg Agg	4.2%	0.07	0.23

Sources:

NYDIG, Bloomberg as of 7/29/22, unless noted otherwise. All prices are 4:00 pm ET prices on the last business day of each month. Barclays Agg represents the Bloomberg US Aggregate Total Return Bond Index. Bitcoin returns based on month-end 4pm prices. Monthly bitcoin prices prior to October 2018 are based on Coinbase 4pm pricing. In October 2018, NYDIG began generating bitcoin prices in accordance with NYDIG Asset Management's valuation policy for its bitcoin funds. The monthly bitcoin prices used after October 2018 reflect 4pm prices determined in accordance with such valuation policy, which is the same valuation policy that is used for NYDIG's funds. As there are two different pricing sources for bitcoin reflected, the historical performance of bitcoin shown may be different if the bitcoin prices in accordance with NYDIG Asset Management's valuation policy were used for the entire period or if the Coinbase pricing were used for the entire period. Performance data quoted represents past performance of bitcoin. Past performance of bitcoin is not indicative of future results. Bitcoin has historically exhibited high price volatility relative to more traditional asset classes. The value of an investment in bitcoin or the funds could decline rapidly, including to zero.

Important Disclosures: