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Weekly Market Commentary - January 24th, 2020

Bitcoin Hits Resistance Amid Rebound in "Alts"

- Contrary to last year's trend, alternative crypto assets, or "alts", are outperforming BTC by a sizable margin to kick off the year, notably other large and mid-cap names. Interestingly, several of last year's laggards have found themselves atop the leaderboard for 2020 so far, helping drive the size segment's outperformance.

- Several major central banks kept their policy rates unchanged this week including the European Central Bank, Bank of Japan, and Bank of Canada. The Fed and Bank of England will be in the limelight next week, though the latter will likely garner more attention given rising uncertainty around its decision.

- The knock-on effects of Fed intervention are becoming difficult to ignore with U.S. equities once again breaking to new all-time highs. The S&P 500 is currently trading more than 10% above its 200-day moving average for the first time in over two years, indicating a potential pullback may be on the immediate horizon if history serves as any guide.

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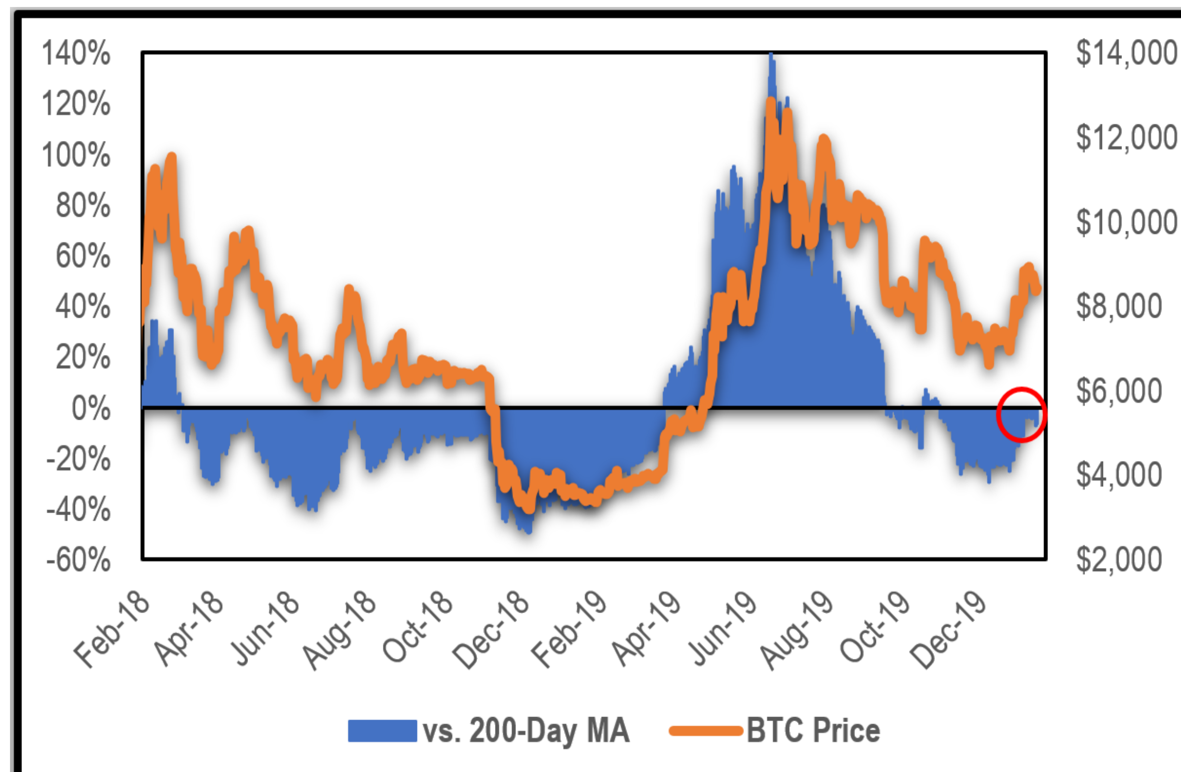
Chart of the Week

Bitcoin ran into a bit of a wall earlier this week after failing to close above its 200-day moving average (MA), a level it retested for the first time since early November. BTC appeared to be gaining solid momentum over the last few weeks but we've remained cautious to declare its latest rally sustainable until we saw a substantial break above a few key technical levels, the 200-day MA being one of them.

Bitcoin Price vs. 200-Day Moving Average



Sources: Coin Metrics

Bitcoin Runs Into Resistance

Bitcoin ran into a bit of a wall earlier this week after failing to close above its 200-day moving average (MA), a level it retested for the first time since early November. BTC appeared to be gaining solid momentum over the last few weeks but we've remained cautious to declare its latest rally sustainable until we saw a substantial break above a few key technical levels, the 200-day MA being one of them. Additionally, BTC's 14-day RSI has begun to roll over while its **daily MACD just experienced a bearish crossover,** neither of which is particularly bullish for BTC in the short run. Longer-term momentum indicators, however, give a more optimistic outlook, notably its weekly MACD, which looks like its about to exhibit a bullish crossover.

BTC vs. 50, 100, & 200-Day MA

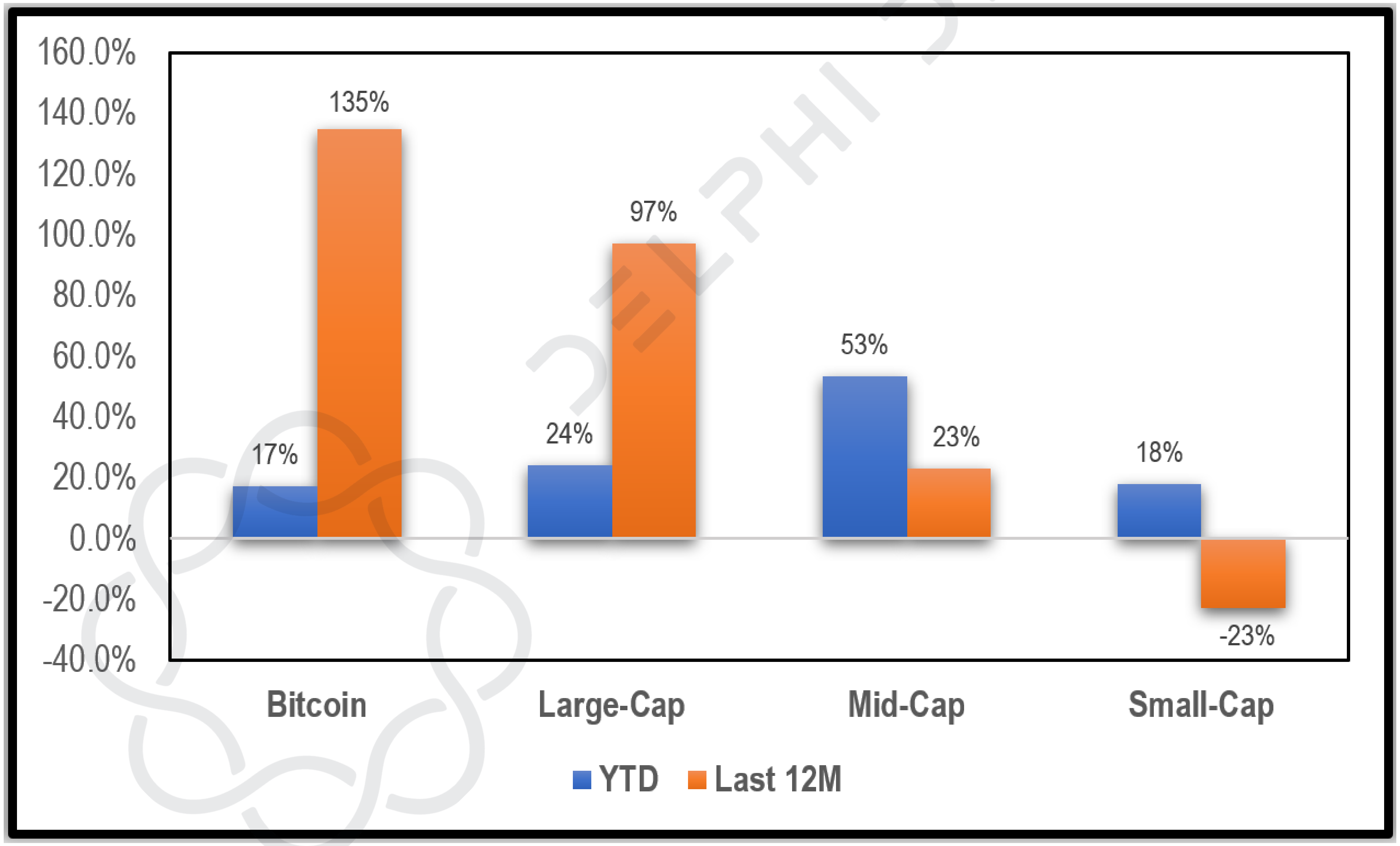
BTC vs. Daily MACD

Data as of January 24th, 2020
Source: TradingView, Coinbase

"Alts" Finally Catch a Bid

Contrary to last year's trend, alternative crypto assets, or "alts", are outperforming BTC by a sizable margin to kick off the year, notably other large and mid-cap names. The Bitwise 10 Large Cap Crypto Index and its mid-cap counterpart have risen 24% and 53%, respectively, since the beginning of the year, after underperforming bitcoin for much of 2019. Interestingly, several of last year's laggards (DASH, ETC, ZEC, etc.) have found themselves atop the leaderboard for 2020 so far. For example, DASH – the largest component in the Bitwise 20 Mid Cap Crypto Index - has more than doubled over the last three weeks, helping drive the market segment's outperformance.

BTC vs. Bitwise Large, Mid, & Small-Cap Indexes Returns



Data as of January 22nd, 2020

Source: Bitwise

Coronavirus Fears Hit Markets

The outbreak of a new coronavirus swept headlines this week as the list of victims climbs and risk of global contagion continues to rise. As one may expect, fear and uncertainty over the situation crept into markets this week, especially countries most affected by the virus so far. Many have drawn parallels to the early days of the SARS outbreak in the early 2000s, which infected over 8,000 people worldwide and took the lives of almost 800, according to the World Health Organization. After the first cases were discovered in late 2002-early 2003, gold surged while stocks sold off. Market reactions at that time were not entirely attributable to fears over SARS, but nonetheless, **these reactions were relatively short-lived.**

Gold & S&P 500 Before, During, & After SARS Outbreak

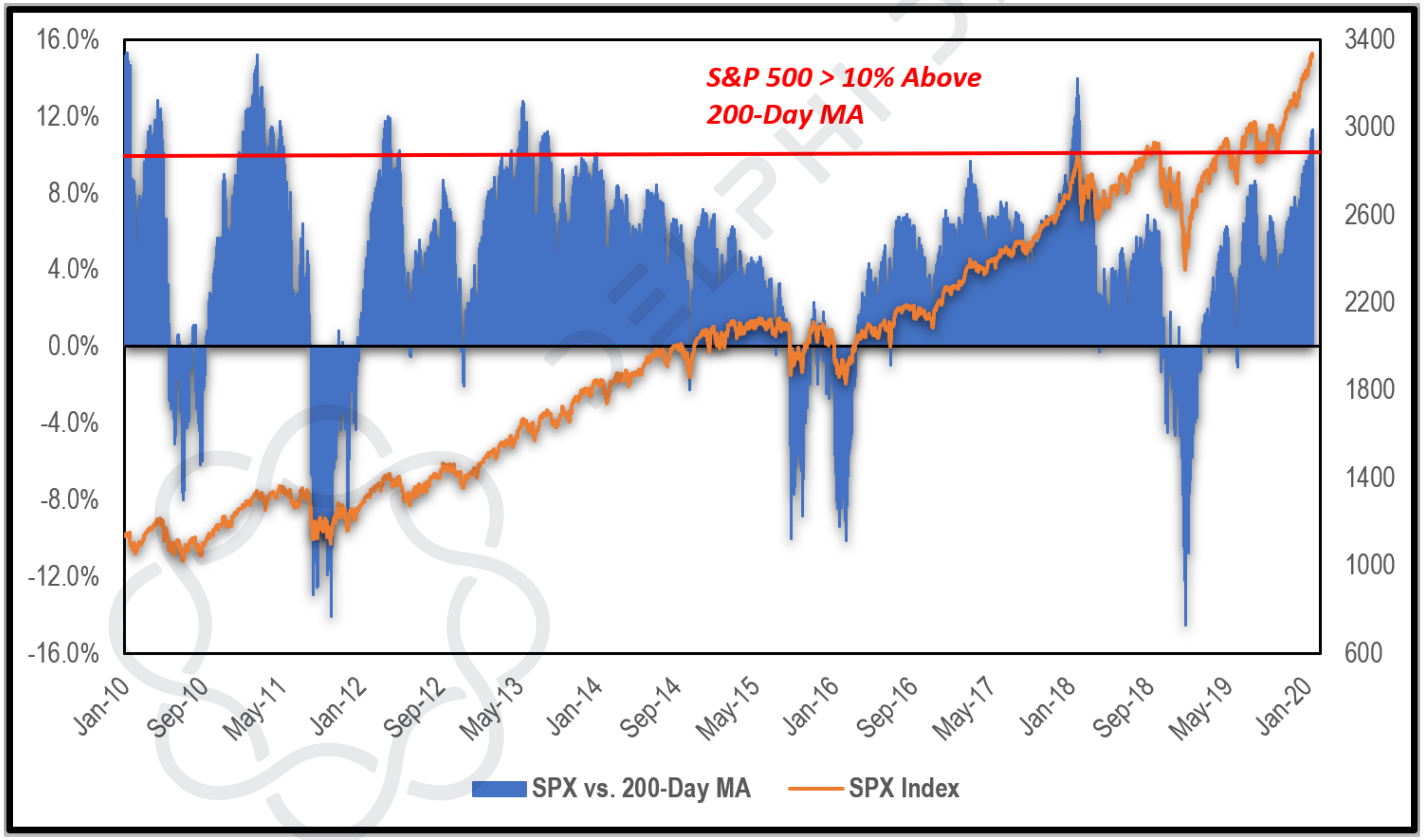
Data as of January 24th, 2020

Source: TradingView, S&P Dow Jones

U.S. Stocks Over Their Skis

The S&P 500 has broken ab…the U.S. stock market is on a tea…you get the idea. Another week, another record high for the large-cap U.S. equity benchmark. In fact, **the S&P 500 is currently trading more than 10% above its 200-day MA for the first time in over two years,** indicating a potential pullback may be on the immediate horizon. Over the last 10 years, the **average and median decline for the S&P 500 is 1.9% and 1.1%, respectively, in the 60 trading days after the index's price rises to more than 10% above its 200-day MA;** it only posted a positive return one-third of the time over the same period.

S&P 500 vs. % Above or Below 200-Day MA



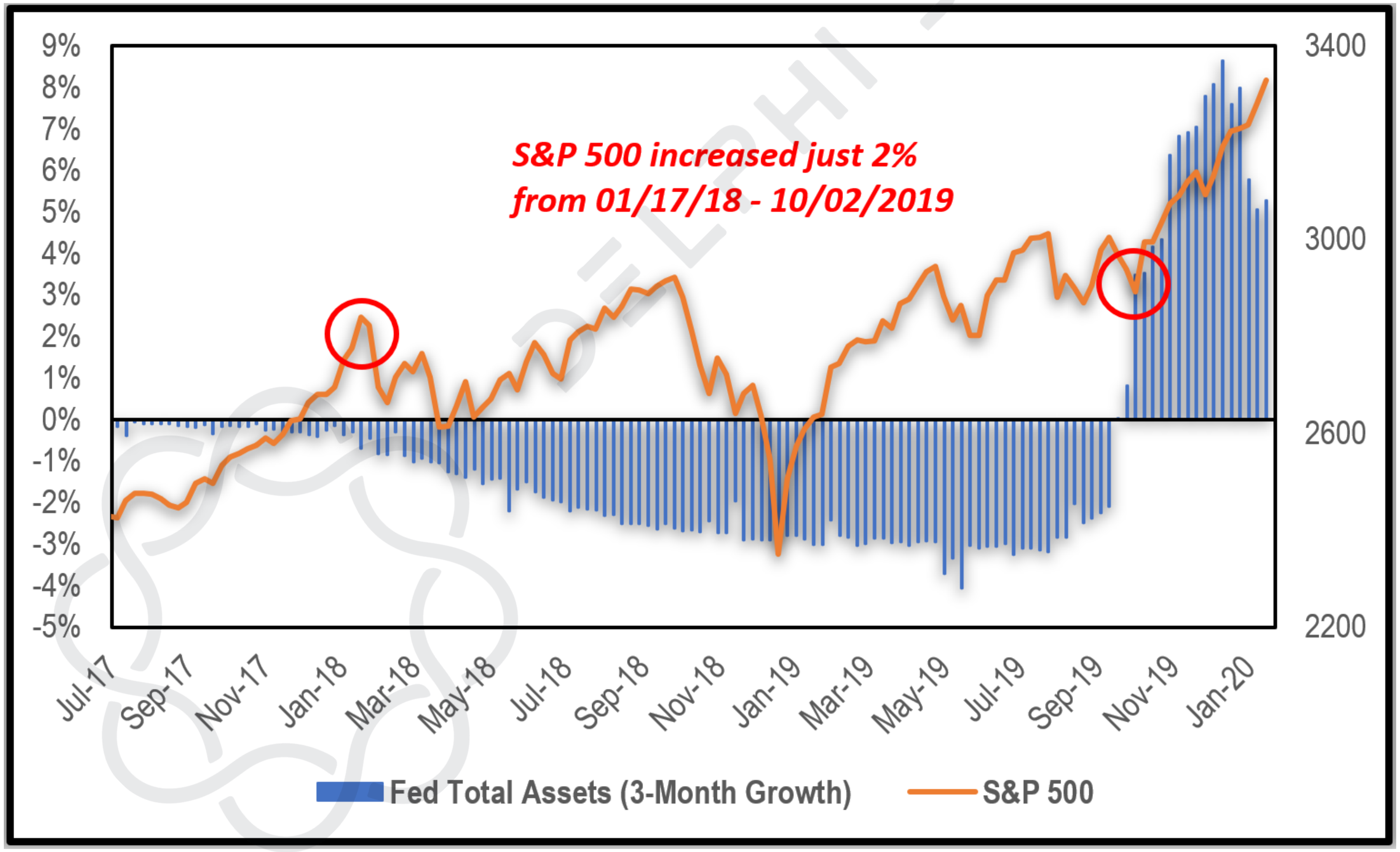
Data as of January 23rd, 2020

Source: S&P Dow Jones

Fed Intervention Juices Markets

We've noted how adamant the Fed has been to draw the line between its current T-bill purchase program and earlier forms of Quantitative Easing involving larger-scale buying of longer-dated Treasury bonds. Fine. But the knock-on effects of a Fed balance sheet expansion are difficult to ignore. Rewind the clock to Jan. 2018 when central banks globally were leaning towards tighter policy stances. The Fed was out in front of this trend having just announced its 9th rate hike in 3 years. Markets eventually freaked as commentary from policymakers became increasingly hawkish; plans to unwind the Fed's balance sheet only added insult to injury. As a result, **the S&P 500 rose a mere 2% between Jan. 2018 and Oct. 2019.** Fast forward to today and the U.S. equity benchmark is back to setting record highs; it's **gained 15% since the first week of October**...coincidence?

Fed Total Assets Growth vs. S&P 500



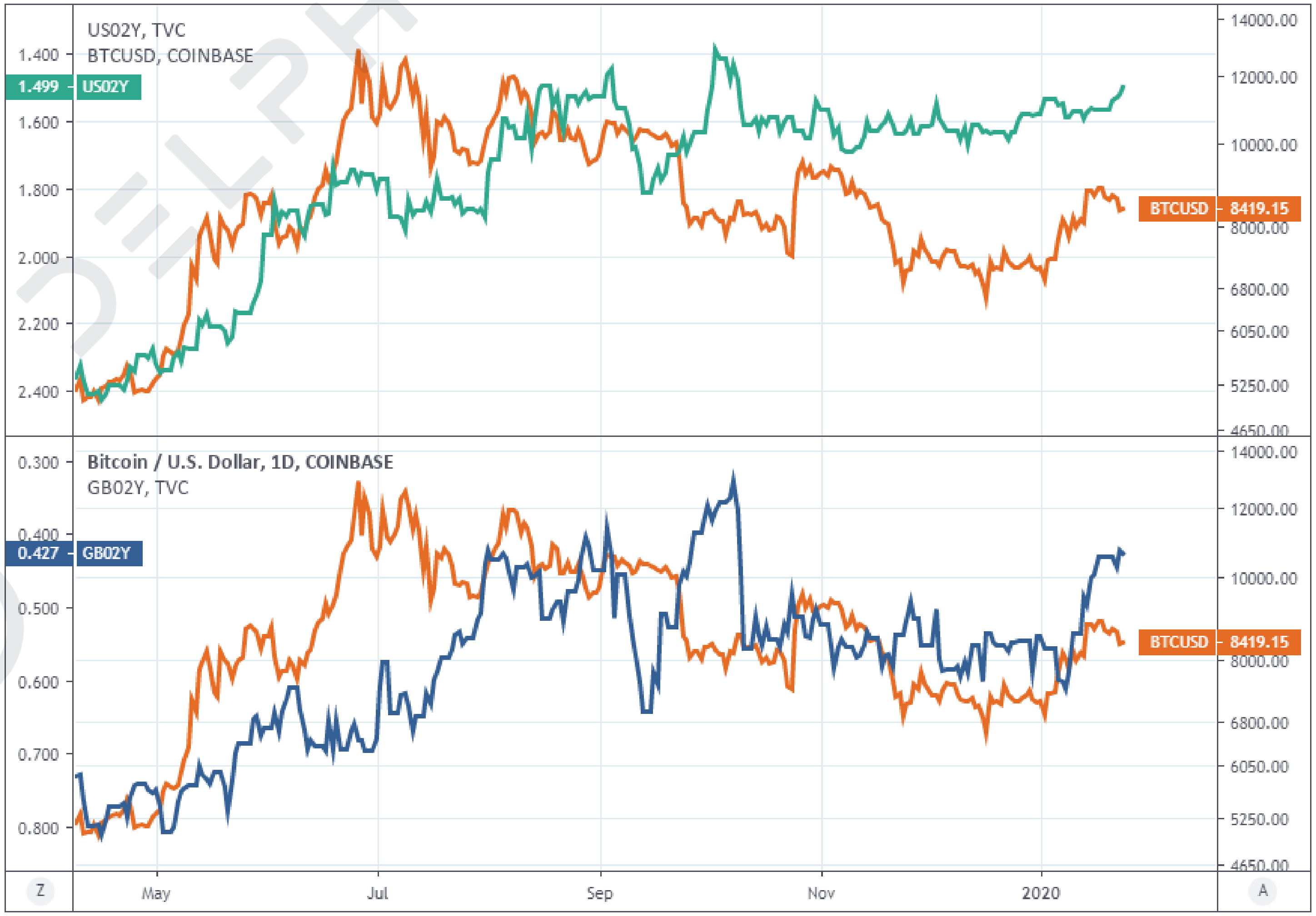
Data as of January 23rd, 2020
Source: Federal Reserve Bank of St. Louis, S&P Dow Jones

Central Banks Take Center Stage

Investors keen on understanding the current outlook for global monetary policy are more attentive this week with several major central banks releasing their latest updates on interest rates and ongoing stimulus programs. The dovish tone among policymakers has generally scaled back the last couple months with the **Fed seemingly on hold** (following three rate cuts in 2019) **and the BOJ, ECB, and BOC (Bank of Canada) deciding to leave benchmark rates unchanged at their respective meetings earlier this week.** However, commentary from each was quite mixed; Canadian policymakers expressed **concern over the current economic slowdown,** leaving the door open for rate cuts if the situation persists while the **ECB indicated negative rates are here to stay for the foreseeable future.** Notably, Canada has the highest policy rate of any major advanced economy at a whopping 1.75%. The U.S. central bank and its U.K. counterpart, the BOE, will be in the limelight next week, although the latter is expected to garner more attention as better-than-expected jobs data called next week's anticipated rate cut into question.

Central bank digital currencies, or CBDCs, were also a hot topic of discussion in Davos this week as the future of global monetary policy and structure of our financial system are top of mind for many investors. Additionally, some of the world's most influential central banks, including the Bank of England, Bank of Canada, Bank of Japan, and the ECB, **announced an initiative to further the research and development of their own digital currencies.** In our view, fiat-backed digital currencies issued by central banks are inevitable. The potential long-term benefits of a digital currency (i.e. more efficient monetary policy tools, low-cost cross-border payment and value transfers, etc.) and growing popularity of digital assets generally have too much momentum for this trend to reverse, making it a matter of when, not if.

Bitcoin vs. Inverted 2-Year U.S. (Green) & U.K. Gov't Bond Yields



Data as of January 24th, 2020
Source: TradingView, Coinbase

Dalio's Bet on Gold

One of the most viral headlines to come out of Davos was Ray Dalio's proclamation **"cash is trash",** which naturally gained widespread support from the crypto community. The renowned founder of Bridgewater Associates, the world's largest hedge fund, has painted an extremely favorable backdrop for bitcoin to thrive, but his call falls short of recommending an allocation to BTC, instead favoring its time-tested counterpart: gold. Ray Dalio is far from a naïve investor, which is why I find it hard to believe he doesn't have at least a very basic understanding of bitcoin; it's received too much press for him to entirely ignore. His perception of BTC, however, centers around **its above-average volatility and the notion it does not serve as a store of value, at least in its current state.** While many have rebutted his remarks, he's not off-base with his logic, **especially when the setup for gold is exceedingly favorable over the coming years.** I'm optimistic successful investors of his caliber will one day "see the light" when it comes to the long-term value proposition of bitcoin (and crypto assets at large), but the harsh reality is today it simply isn't prudent for most investors to swap out gold for BTC in their portfolio. **In our view, the two can (and should) coexist; they're not mutually exclusive.**

Gold Price Breakouts & Pullbacks

Data as of January 23rd, 2020

Source: TradingView

Gold Momentum Building

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There's a breath of fresh optimism among gold bugs following its latest rally as the precious metal hovers near six-year highs. Momentum appears to be on their side with **its 50-day MA breaking above its 100-day MA** following a short period of price consolidation. Gold exhibited similar price action during its run up last summer, providing some assurance it may be eyeing a fresh high soon. **Fundamental drivers like low/falling real yields and central bank accumulation still support our bullish outlook for gold.**

Gold Price vs. 50 (Blue), 100 (Green), & 200-Day MAs (Red)

Data as of January 24th, 2020
Source: TradingView

Economy "Working" For Some, Not All

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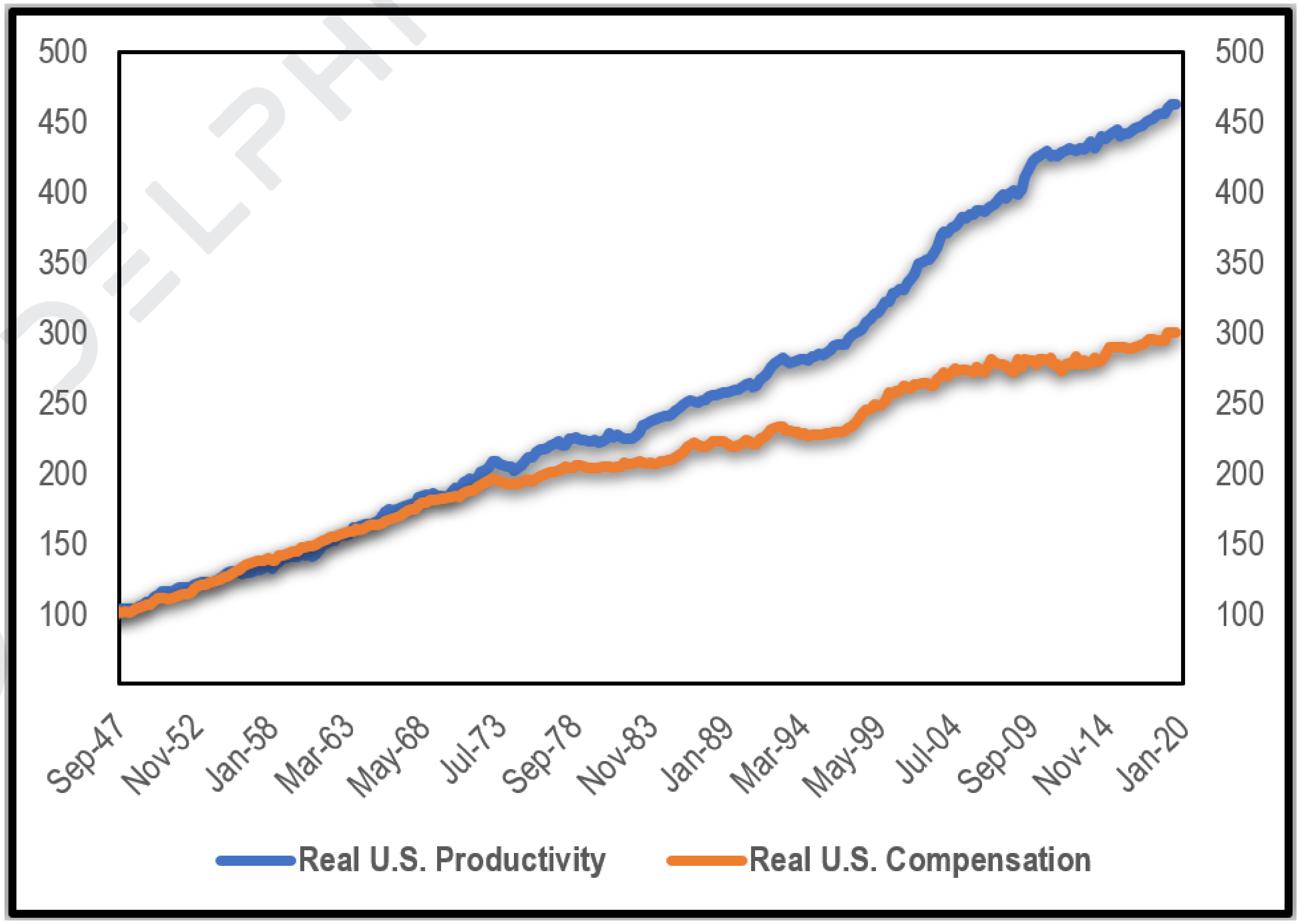
One of the most prominent topics at the World Economic Forum this week was the debate over whether today's financial system is "working" for everyone. As expected, there's pundits on both sides of the argument. Jamie Dimon, the CEO of JP Morgan Chase (and arguably one of the most influential figures on Wall Street), claims the economy is doing "fine" and "the consumer is strong", citing increased jobs, wage growth, and confidence levels. On the other hand, billionaire investor Paul Tudor Jones expressed concern over the way our economy is structured, stating, **"the sharing we have currently is not working for the majority of the country [American public]."** Neither executive is outright wrong; **on the surface the U.S. consumer does appear strong, but there's little doubt our economic structure is less than ideal for promoting income equality and financial inclusion.**

The divergence between real productivity and employee compensation over the last 40 years or so is quite drastic, especially since the growth in these two metrics tracked one another rather closely in the decades prior. There isn't one single event or variable that comprehensively explains this widening gap, but there is one man who arguably set the stage for this trend, and that is Milton Friedman.

In an article published in the New York Times in 1970, **Friedman argued the primary responsibility a company has is to its shareholders.** Known as the "Friedman Doctrine", the essay laid the groundwork for the theory of "shareholder primacy", **which is the focal point for corporate governance of most public companies to this day.**

Stay tuned for more work from us on this topic soon.

U.S. Real Productivity vs. Real Compensation Normalized



Data as of January 23rd, 2020
Source: Federal Reserve Bank of St. Louis

Crypto Asset Movers & Shakers

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Notable Large-Cap Crypto Asset Returns

	7D	30D	90D	YTD
XEM	9.39%	22.76%	0.49%	-41.43%
XLM	8.54%	28.77%	-9.10%	-49.59%
MIOTA	3.82%	51.35%	-11.39%	-32.34%
ADA	3.71%	26.95%	5.24%	1.31%
ETC	0.24%	113.77%	76.58%	61.72%
BNB	0.06%	27.31%	-7.96%	188.94%
BCH	-0.59%	72.32%	26.30%	101.93%
ETH	-0.98%	26.92%	-10.80%	17.66%
XRP	-1.43%	17.94%	-24.12%	-38.18%
ZEC	-2.44%	75.74%	34.01%	-15.73%
BTC	-3.94%	15.40%	-4.53%	119.68%
XMR	-4.37%	36.06%	8.39%	31.86%
LTC	-5.35%	34.71%	-4.41%	72.89%
NEO	-5.82%	21.59%	37.46%	33.29%
TRX	-6.19%	19.75%	-7.97%	-17.13%
EOS	-7.05%	39.96%	11.48%	35.31%
MKR	-8.82%	8.72%	-9.77%	3.89%
DASH	-19.44%	145.30%	47.34%	27.95%

Data as of 01/23/20

****The above table is powered by Digital Assets Data, a fintech company building a knowledge platform to manage data and deploy investment models.***

Digital Assets Data

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