DELPHI DIGITAL

Weekly Market Commentary - April 1st, 2020

The Bloodiest Quarter in a Decade Rattles Markets

- The "Everything Rally" that characterized 2019 was flipped on its head in Q1 2020 with several major asset classes suffering their worst quarterly declines in over a decade.

- Bitcoin fell a whopping 25% in March, its worst monthly decline since November 2018 (-37%), which briefly pushed BTC below its 200-week moving average, a level that's served as key support following prior major corrections.

- Many alternative crypto assets have watched 50-60% of their value evaporate over the last few weeks, increasing pressure on projects dependent on external financing or token sales to fund development.

- The swift correction in equities has caused key momentum indicators to roll over while the initial fallout from COVID-19 begins to show up in key economic indicators, providing tangible evidence of its destructive potential.

Lead Analyst

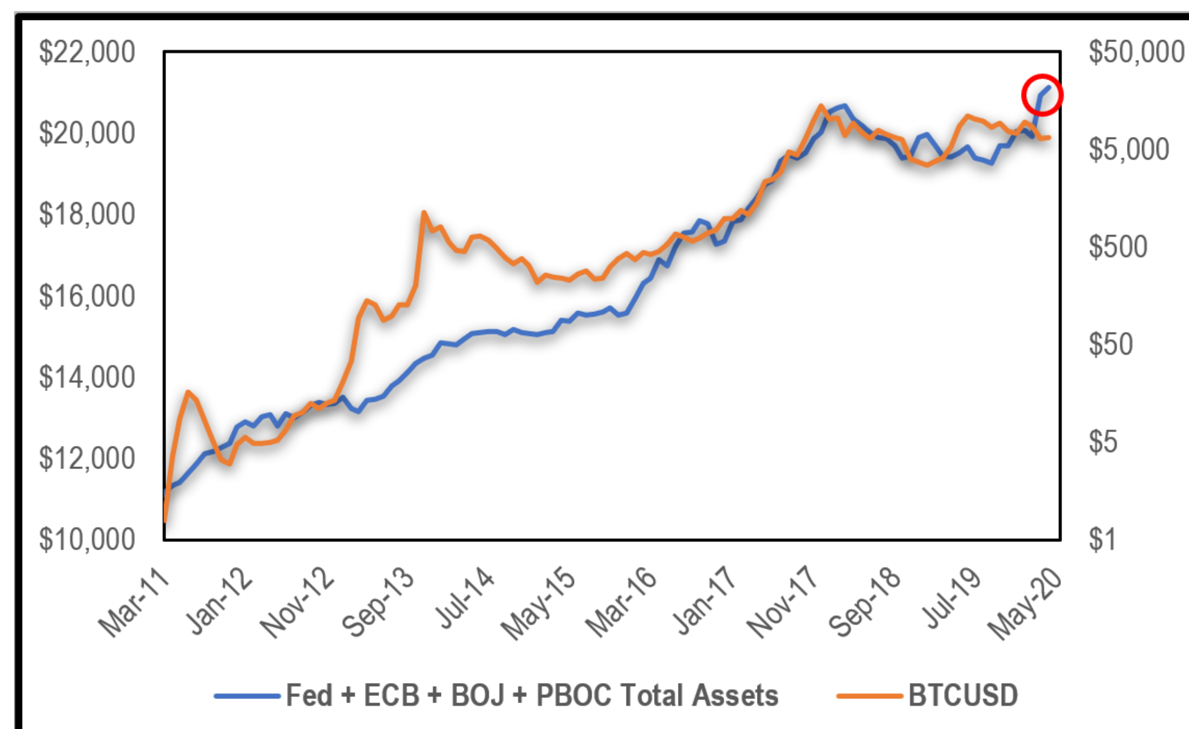
Kevin Kelly, CFA

kevin@delphidigital.io

Chart of the Week

The world is on the verge of a monetary and fiscal stimulus tsunami as policymakers attempt to combat the detrimental impact of COVID-19. The Federal Reserve's aggressive asset purchase program has already propelled its balance sheet above $5 trillion for the first time, though its total assets are more likely to end this week closer to $6 trillion given the Fed's upcoming purchase plans. **The backdrop for massive debt monetization is set and it appears all the usual suspects are making their way to the stage.**

Bitcoin (Orange) vs. Total Assets of Major Central Banks



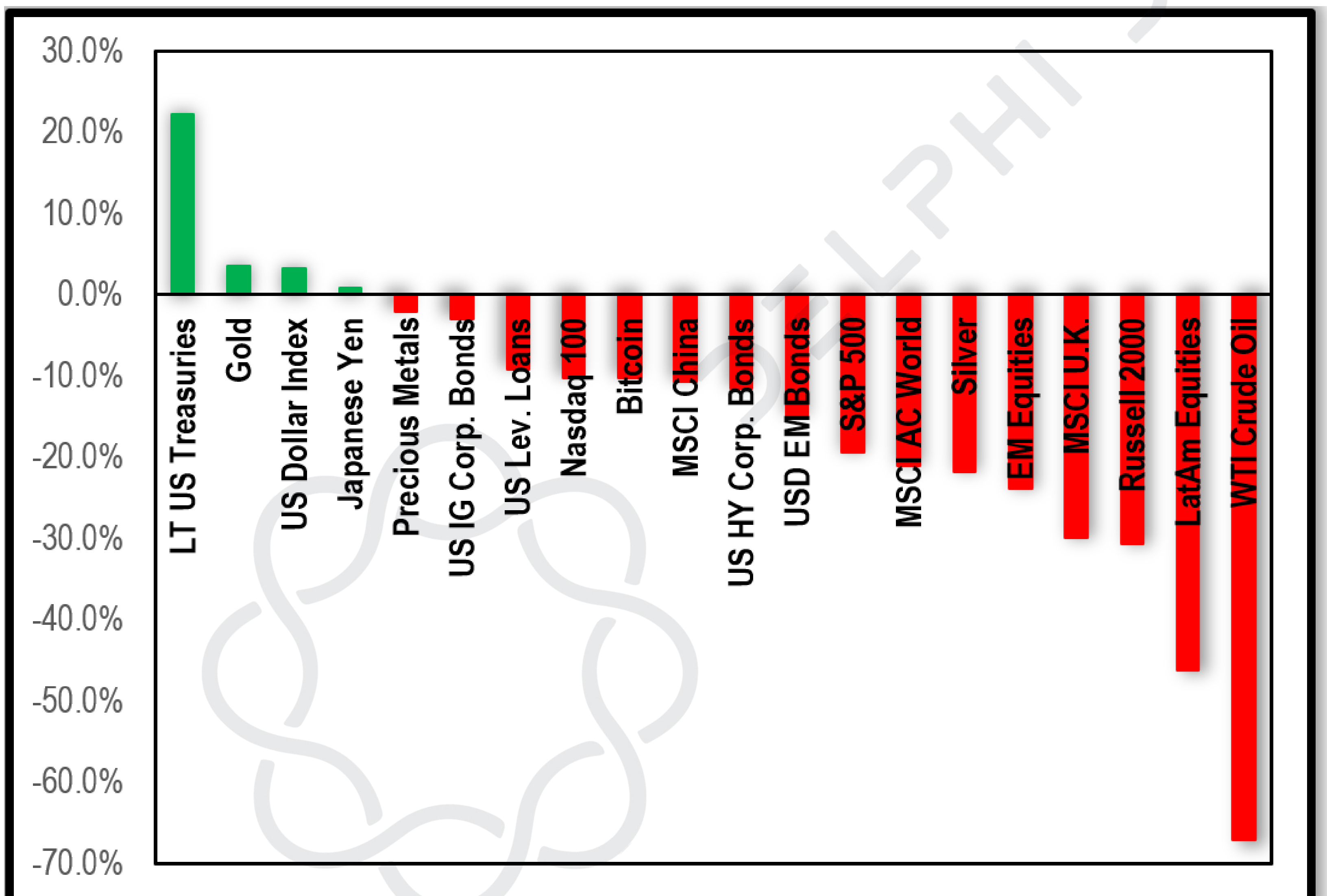
Sources: FRED, Digital Assets Data, PBOC

"Everything Rally" Ends in Flames

DELPHI DIGITAL

Markets waltzed into 2020 with the wind at their back after providing investors with one of the best years of returns since the financial crisis. Fast forward three months and it's next to impossible to find a pundit who doesn't see the global economy slipping into one of the worst recessions since the Great Depression. **Large-cap stocks and high yield corporate bonds in the U.S. are coming off their worst quarters since 2008, the Russell 2000's 31% plunge handed small-caps their worst quarter in at least 40 years, and crude oil just wrapped up its worst quarter on record following its 66% collapse.** Starting points certainly matter, but the carnage we saw in Q1 makes bitcoin's 10% loss look like child's play relative to what could have been.

Major Asset Class % Change YTD



	YTD
LT US Treasuries	22.2%
Gold	3.6%
US Dollar Index	3.3%
Japanese Yen	0.9%
Precious Metals	-2.1%
US IG Corp. Bonds	-3.0%
US Lev. Loans	-9.3%
Nasdaq 100	-10.2%
Bitcoin	-10.3%
MSCI China	-10.7%
US HY Corp. Bonds	-11.6%
USD EM Bonds	-15.0%
S&P 500	-19.4%
MSCI AC World	-21.1%
Silver	-21.8%
EM Equities	-23.9%
MSCI U.K.	-30.0%
Russell 2000	-30.7%
LatAm Equities	-46.3%
WTI Crude Oil	-67.1%

Data as of April 1st, 2020

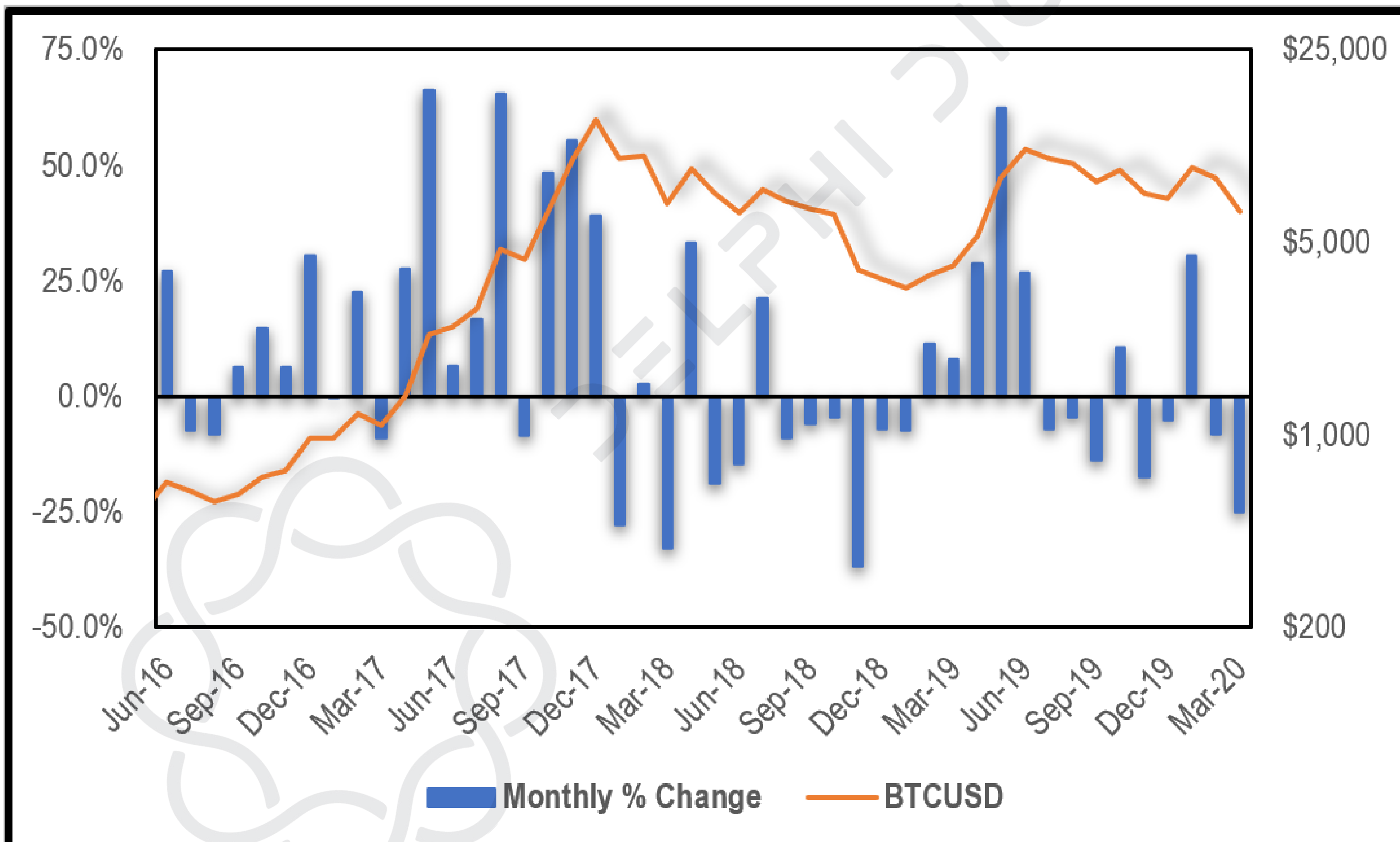
Source: TradingView, Coinbase, BlackRock, MSCI, SPDR

Bitcoin Falls Victim to Market Rout

DELPHI DIGITAL

Bitcoin fell a **whopping 25% in March, its worst monthly decline since November 2018 (-37%).** Despite the gory tail end of Q1, BTC is only down 10% year-to-date thanks to its 30% jump in January (which ran counter to its Jan. performance in each of the five years prior). Bitcoin's 10% decline in Q1 marked its third consecutive quarter of losses; the world's largest crypto asset is **still more than 50% off its 2019 high in late June.**

BTC Price vs. Monthly % Change



Data as of April 1st, 2020
Source: Coin Metrics

BTC Tests Key Support

DELPHI DIGITAL

Bitcoin was unable to avoid the panic sell-off but has managed to hold up decently well the last couple weeks. We discussed its recent "death cross" in our latest Bitcoin Outlook as BTC struggles to catch a bid despite growing uncertainty around the damage COVID-19 is already inflicting. Its sharp price drop a few weeks ago **pushed BTC below its 200-week moving average, a level that historically has served as key support following major corrections.** Bitcoin is currently trading between its 100 and 200-week MAs but another 10-11% decline would cause it to break below the latter once again.

BTC Price vs. 50, 100, & 200-Week Moving Averages

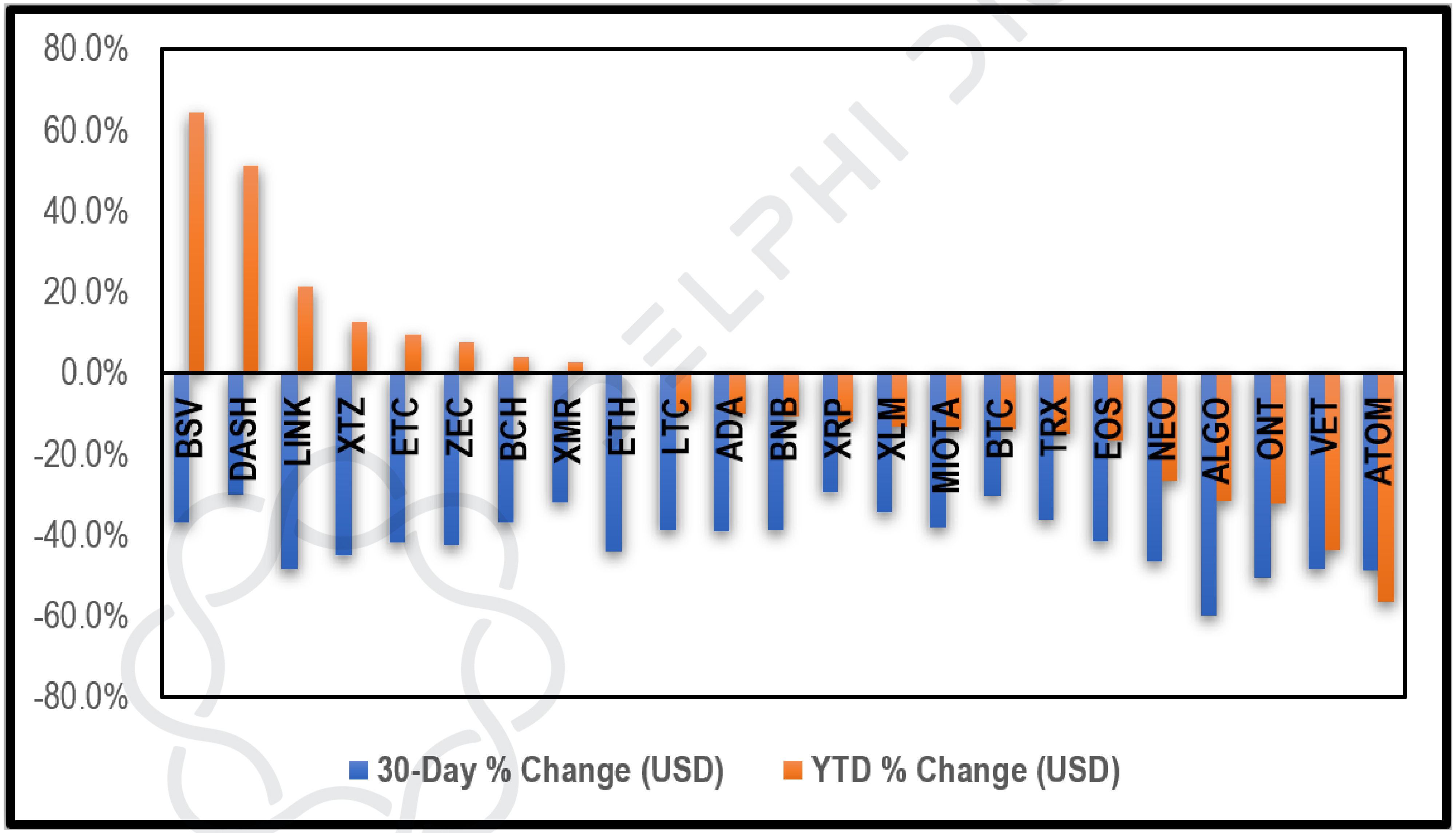
Data as of April 1st, 2020

Source: TradingView, Brave New Coin

"Alts" Outperform in Q1

Interestingly, **several large crypto assets have outperformed BTC year-to-date** despite the bloodshed across crypto markets. However, **many "alts" have seen 50-60% of their value evaporate in the last month** alongside the weakness in BTC, increasing pressure on projects dependent on external financing or token sales to fund development. If current conditions persist – as we expect they will – we're likely to see a wave of consolidation across the industry as easy money gets harder to come by.

Notable Large Crypto Asset Returns YTD



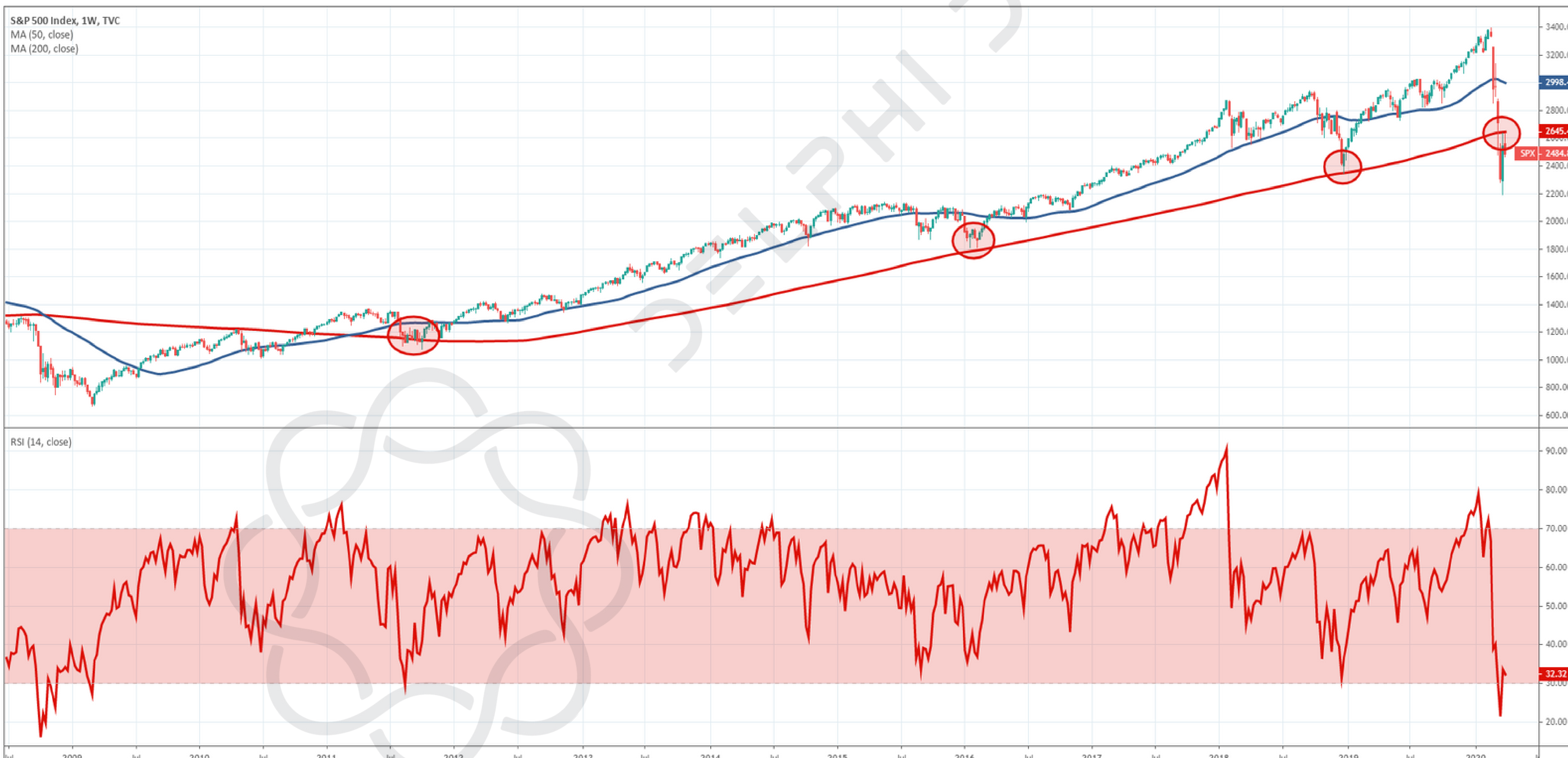
***Assets' current liquid market cap > $250MM**

Data as of April 1st, 2020
Source: OnChainFX

Beware the Relief Rally

Last week, we noted extreme oversold levels for the S&P 500, **which had just hit its lowest 14-week RSI reading since 2008.** Immediately after, the index rebounded more than 13% through the end of last week, which included the largest three-day percentage gain for the U.S. benchmark since 1933. In our view, **the outsize relief rally was more a manifestation of the turbulent sell-off that preceded it rather than a fundamental improvement in the earnings outlook.** The S&P 500 is now retesting its 200-week moving average, but fading momentum is likely to take hold barring a drastic turn in developments surrounding the COVID-19 outbreak.

S&P 500 vs. 50 & 200-Week MAs vs. 14-Week RSI (Bottom Panel)



Data as of April 1st, 2020
Source: TradingView

Stocks Face "Death Cross"

The swift correction in equities has also caused key momentum indicators to roll over. For example, **the S&P 500's 50-day moving average just fell below its 200-day equivalent for the first time since December 2018** (commonly referred to as a "death cross" as we've noted previously). Surprisingly, subsequent returns in prior instances have been relatively strong, especially over longer time horizons; the average and median 12-month percentage change on the S&P 500 following a "death cross" is 7% and 11%, respectively, since 1970. However, **the two worst periods for the U.S. benchmark just so happen to be after the October 2000 and December 2007 occurrences when the S&P 500 dropped another 21% and 41%, respectively, over the following 12 months.** Notably, global equity benchmarks are also experiencing similar technical patterns in the aftermath of recent market turmoil.

S&P 500 vs. 50, 100, 200-Day Moving Averages

Data as of April 1st, 2020
Source: TradingView

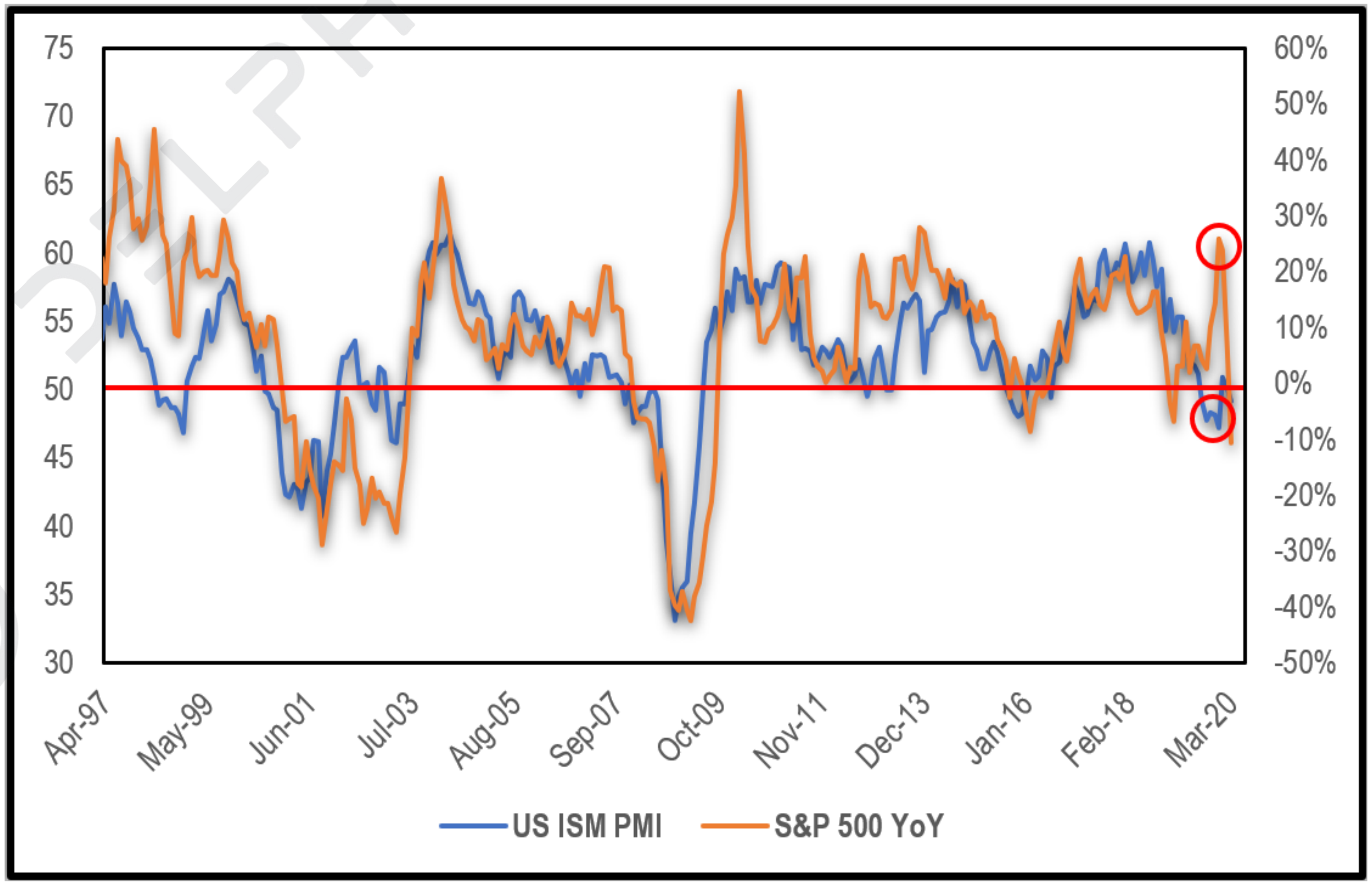
"Shutdown" Fallout Materializes

The initial fallout from COVID-19 is showing up in key economic indicators, **providing tangible evidence of its destructive potential.** Composite and manufacturing PMIs, for example, are hitting their lowest levels on record in many countries as supply chain disruptions and mandated social distancing upend global consumption trends. However, it's important to understand how these metrics are calculated, otherwise you risk misinterpreting key data points or disregarding them as "manipulated" or "fake". Look no further than China's official manufacturing PMI reading for March, which came in well above estimates (52.0 vs. 45.0) and immediately had many pundits up in arms. The monthly PMI, however, is simply a **diffusion index measuring whether business conditions have improved, stayed the same, or worsened** each month, so it's not *that* outlandish to see a reading above 50 given how dire circumstances were last month. That's not to say these figures should be accepted purely at face value, but China's Caixin Manufacturing PMI reading (50.1) this week added further support for the official numbers.

The most important consideration for investors right now is figuring out how much bad news is already priced into the market. But such an exercise is, by nature, immensely difficult given the amount of uncertainty still surrounding the virus and future political responses to its spread.

For example, few analysts or market pundits expected social distancing guidelines in the U.S. to last just a couple weeks; we all knew the temporary economic "shutdown" was going to be extended as the severity of contagion worsened. But how many Americans woke up surprised to hear that the White House had extended its guidelines for another 30 days? How many people were under the impression that life would begin to normalize by Easter? This is just one example of the difficulty in assessing what's "priced in" during periods of extreme duress like we're facing now.

U.S. ISM PMI vs. S&P 500 Year-Over-Year % Change

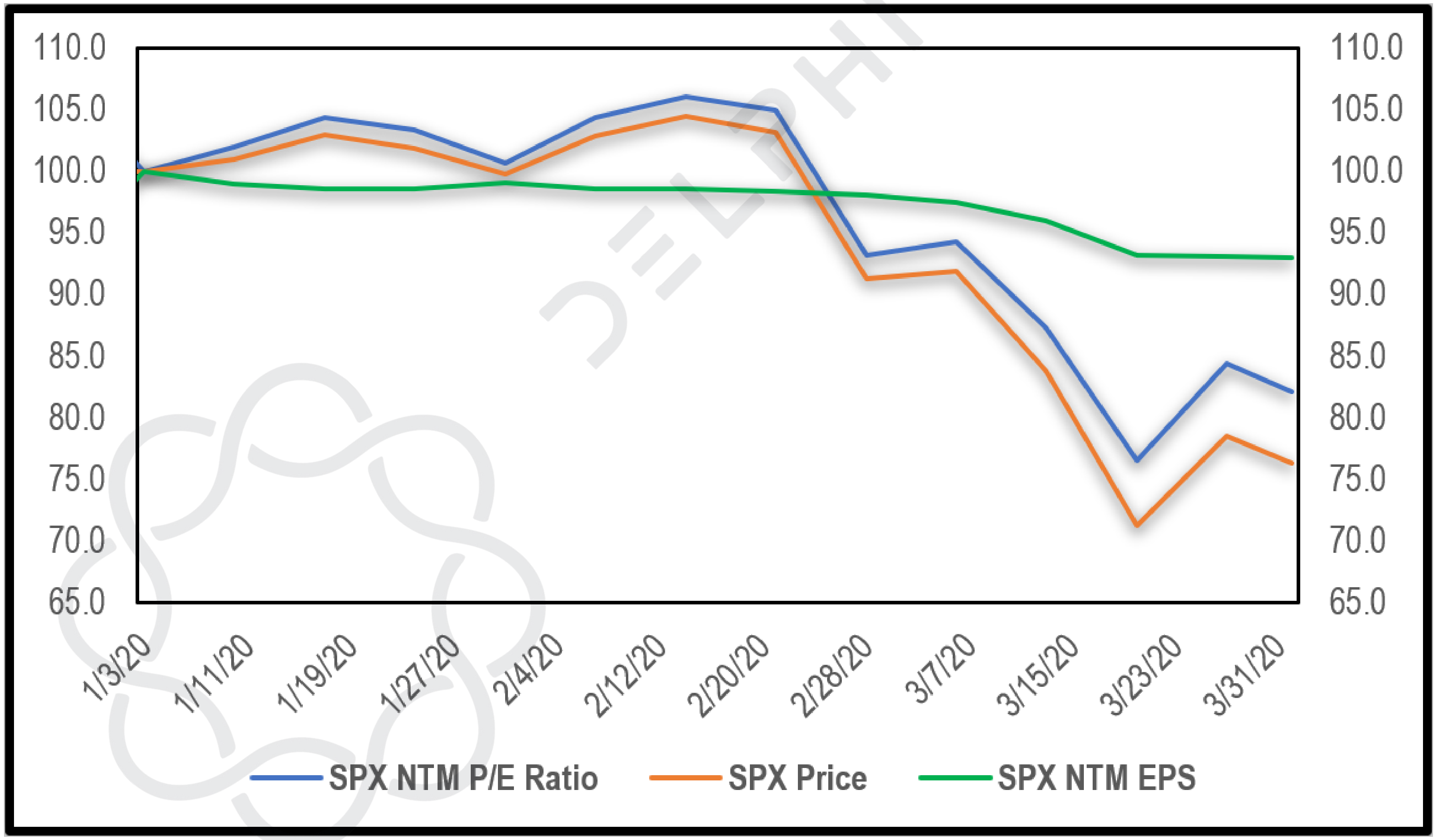


Data as of April 1st, 2020
Source: ISM

Earnings Forecasts Still Too High

Markets are discounting mechanisms and stocks are a particularly telling gauge of future expectations for corporate activity and business conditions; **the equity market will reflect fundamental improvements long before it shows up in the data.** Analyst estimates for corporate earnings, however, have yet to fully incorporate the potential fallout from all of this, which could weigh on equity markets in the near term if downward revisions accelerate. **The S&P 500 has lost almost 25% of its value since the first week in January but forward 12M projected earnings for the index have only fallen ~8%.** The difference amounts to a ~15% decline in the index's forward price-to-earnings multiple (P/E), prompting many to proclaim equities are relatively cheap as valuations fall back down to earth. If we account for further downward revisions to earnings expectations though we find the implied forward multiple on the S&P 500 to be notably higher than current levels.

S&P 500 Price, NTM P/E & NTM EPS (Indexed)



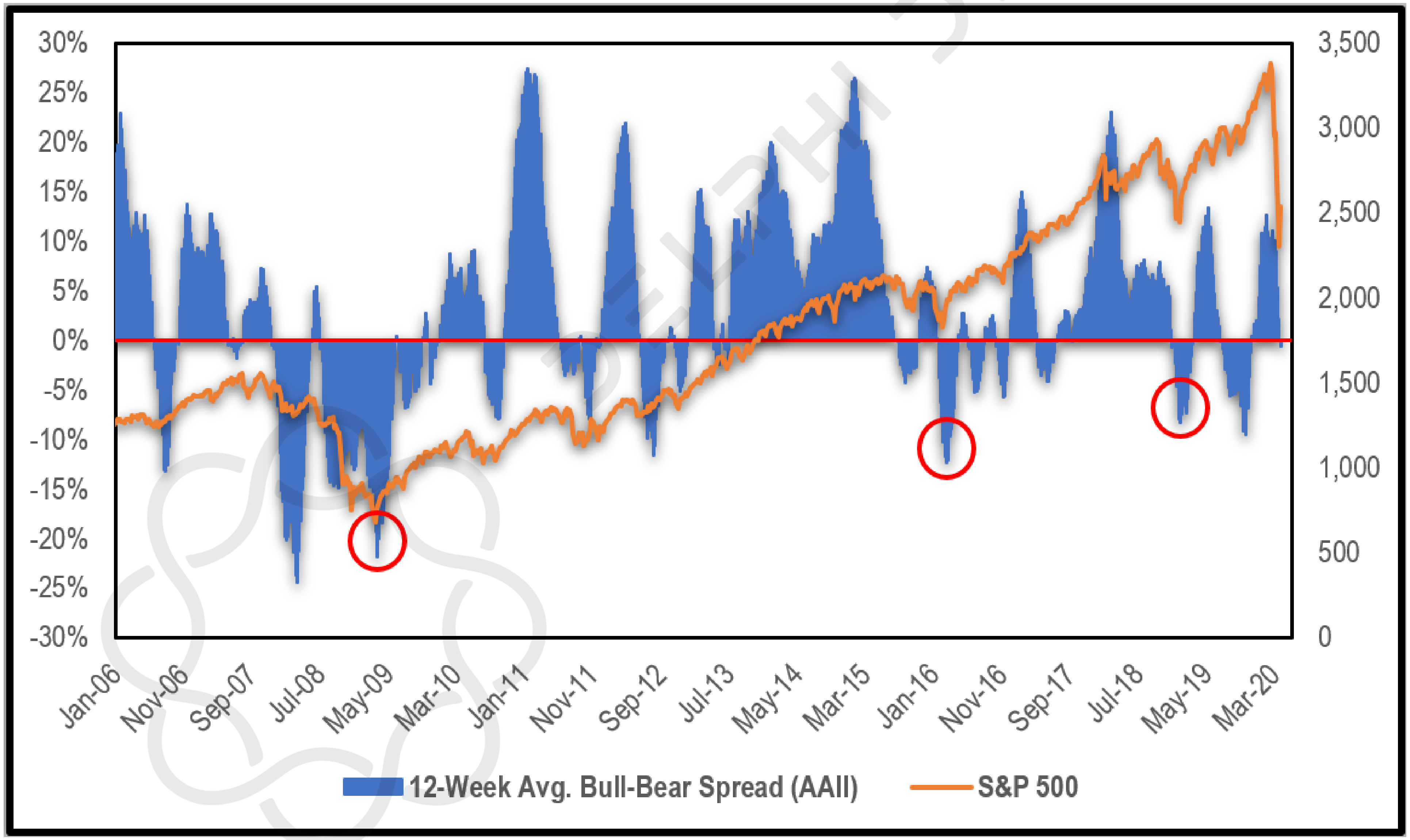
Data as of April 1st, 2020
Source: Bloomberg

Individual Investors Not Bearish Enough

DELPHI DIGITAL

Sentiment among individual investors has begun to turn more pessimistic but is not signaling capitulation in the equity markets just yet. The latest survey data from the American Association of Individual Investors (AAII) **indicates 33% of its members are bullish on the stock market over the next 6 months while 52% are currently bearish.** Historically, the AAII bull-bear spread needs to fall further before we can call a bottom in equities. It's worth noting, however, looking at just the percentage of members who are bearish we find the four-week moving average is slightly higher than early 2016 and 2019 levels.

S&P 500 vs. AAII Bull-Bear Survey (12-Week Avg)



Data as of March 30th, 2020

Source: American Association of Individual Investors (AAII)

Disclosures

The Research Team may own the tokens represented in this report, and as such this should be seen as a disclosure of any potential conflict of interest. Anyone can contact Delphi Digital for full token disclosures by team member at Team@DelphiDigital.io. This report belongs to Delphi Digital, and represents the opinions of the Research Team.

Delphi Digital is not a FINRA registered broker-dealer or investment adviser and does not provide investment banking services. This report is not investment advice, it is strictly informational. Do not trade or invest in any tokens, companies or entities based solely upon this information. Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on topics discussed in this document and develop a stand-alone judgment of the relevant markets prior to making any investment decision.

Delphi Digital does not receive compensation from the companies, entities, or protocols they write about. The only fees Delphi Digital earns is through paying subscribers. Compensation is not received on any basis contingent upon communicating a positive opinion in this report. The authors were not hired by the covered entity to prepare this report. Delphi Digital did not receive compensation from the entities covered in this report for non-report services, such as presenting at author sponsored investor conferences, distributing press releases or other ancillary services. The entities covered in this report have not previously paid the author in cash or in stock for any research reports or other services. The covered entities in this report are not required to engage with Delphi Digital.

The Research Team has obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind – whether expressed or implied. All market prices, data and other information are not warranted as to completeness or accuracy, are based upon selected public market data, reflect prevailing conditions, and the Research Team's views as of this date, all of which are accordingly subject to change without notice. Delphi Digital has no obligation to continue offering reports regarding this topic. Reports are prepared as of the date(s) indicated and may become unreliable because of subsequent market or economic circumstances. The graphs, charts and other visual aids are provided for informational purposes only. None of these graphs, charts or visual aids can and of themselves be used to make investment decisions. No representation is made that these will assist any person in making investment decisions and no graph, chart or other visual aid can capture all factors and variables required in making such decisions.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. No representations or warranties are made as to the accuracy of such forward-looking statements. Any projections, forecasts and estimates contained in this document are necessarily speculative in nature and are based upon certain assumptions. These forward-looking statements may turn out to be wrong and can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond control. It can be expected that some or all of such forward-looking assumptions will not materialize or will vary significantly from actual results. Nothing in this report can be re-purposed or shared without the expressed consent of Delphi Digital. View our Terms of use here.

DELPHI DIGITAL

85 Broad Street
New York, NY, 10004
www.delphidigital.io

team@delphidigital.io