DELPHI DIGITAL

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Liquidity Crunch Takes No Prisoners

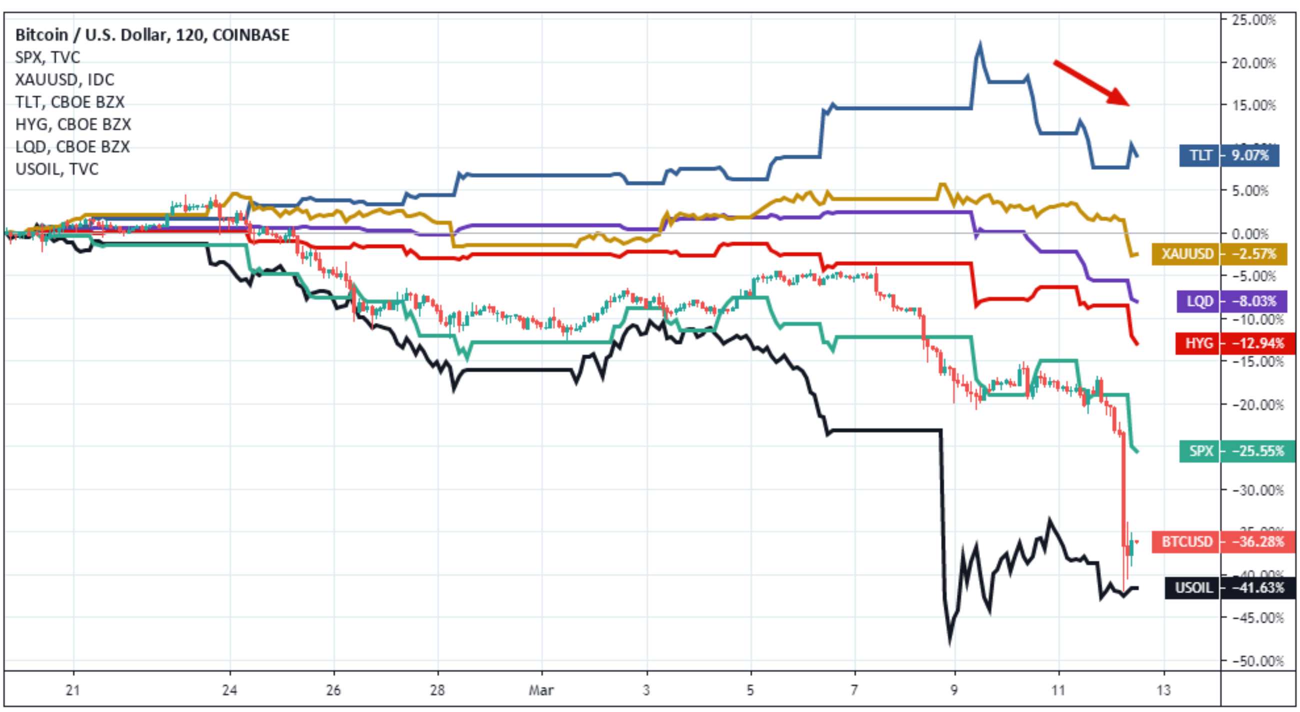
The latest market meltdown centers around liquidity (or lack thereof) as investors sell whatever they can to minimize additional losses or cover their positions. The old adage "cash is king" rings truer than ever at times like this as markets crater and hysteria takes hold. Beware fakeout rallies and false bottoms as they've claimed more careers than they've made.

Eventually, this too shall pass, and market participants will begin to reevaluate their outlooks amid a dramatically different backdrop than we've become accustomed to. Until then, it's a dangerous time to be trying to time violent price fluctuations, especially when the catalyst for such extreme concern stems from a global pandemic with unknown bounds.

Key Takeaways

- During times of extreme market duress, every asset class is vulnerable to a sell-off as correlations swiftly tighten. Even U.S. Treasuries - the poster child of safety – have pulled back from recent highs, joining the rest of the gang as turmoil wreaks havoc across markets.
- Bitcoin and crypto assets have been unable to escape the latest market turbulence, moving in lockstep with risk assets like equities for the better part of the last two weeks amid a massive risk-off move.
- BTC is on pace for its worst day since April 2013 - using closing daily prices - falling nearly 25% over the last 24 hours alone. However, bitcoin has historically bounced back strong from similarly violent sell-offs.
- The latest correction has pushed BTC oversold levels last seen in late Sep. 2019 and Nov. 2018.

Selling Across Major Asset Classes



SPX = S&P 500; XAU = Gold; TLT = LT US Treasuries; HYG = US High Yield; LQD = US Inv. Grade; USOIL = Crude

Sources: TradingView, Coinbase, BlackRock, Bloomberg

Bitcoin Can't Escape Market Turmoil

Bitcoin has been unable to escape the latest market turbulence, moving in lockstep with stocks for the better part of the last two weeks as fears over the coronavirus outbreak sparked a massive risk-off move…

BTCUSD vs. S&P 500 Futures

This aligns with BTC's historical precedent of selling off with equities when market volatility spikes. The VIX Index, which measures expectations for short-term equity volatility, **just hit its highest level since December 2008…**

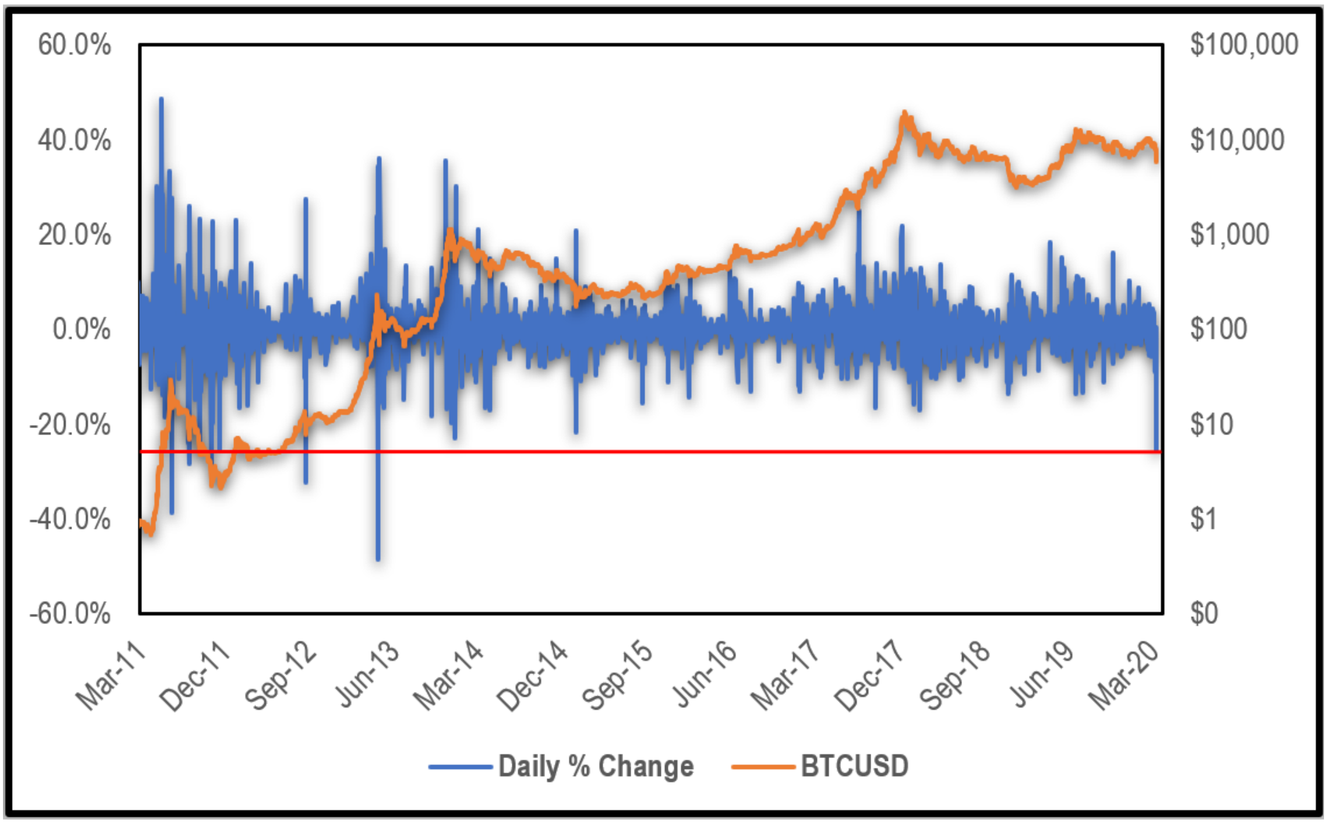
BTCUSD vs. Inverted VIX Index (14-Week Avg)

Sources: TradingView, Coinbase, CME, Cboe

Bitcoin's Historic Correction

Bitcoin is on pace for its worst day since April 2013 (using closing daily prices) falling nearly 25% over the last 24 hours alone. However, **BTC has historically bounced back strong from violent sell-offs of similar extent, boasting an average gain of +30% in the 14 days following a daily decline of at least 20%** since 2012.

BTCUSD vs. Daily % Change



Date	BTC Price	Daily % Chg	Fwd 14-Day Return	Fwd 30-Day Return	Fwd 90-Day Return	Fwd 12M Return
1/14/2015	$175.64	-21.6%	34.2%	34.7%	25.1%	144.7%
12/18/2013	$526.12	-22.9%	43.0%	50.7%	16.8%	-40.4%
12/16/2013	$677.89	-21.5%	8.5%	24.1%	-6.5%	-51.5%
4/11/2013	$82.90	-48.6%	70.1%	39.3%	2.5%	409.0%
4/10/2013	$161.19	-30.1%	-4.4%	-27.0%	-53.5%	127.6%
8/19/2012	$7.83	-32.4%	30.6%	56.6%	50.1%	1212.6%
11/14/2011	$2.22	-25.5%	14.3%	41.9%	148.1%	394.5%
10/17/2011	$2.58	-28.5%	26.5%	-1.3%	173.0%	359.0%
9/9/2011	$4.99	-25.3%	11.6%	-17.5%	-40.0%	121.5%
8/6/2011	$6.96	-28.4%	64.6%	9.1%	-55.2%	55.2%
8/3/2011	$9.29	-24.0%	18.1%	-7.2%	-65.9%	13.6%
6/11/2011	$14.75	-38.7%	18.7%	-3.0%	-66.2%	-63.0%
Daily % change calculated using closing day pricing		*Average*	*28.0%*	*16.7%*	*10.7%*	*223.6%*
		Median	*22.6%*	*16.6%*	*-2.0%*	*124.5%*
		Avg. (ex-2011)	*30.3%*	*29.7%*	*5.7%*	*300.3%*
		Med. (ex-2011)	*32.4%*	*37.0%*	*9.7%*	*136.2%*

Sources: Digital Assets Data

BTC Extremely Oversold

The latest sell-off has also pushed BTC to its **most oversold level since late September 2019,** measured by its 14-day RSI. Further selling pressure would likely push the momentum gauge to its lowest level since the market's Q4 2018 massacre when BTC dropped more than 50% in a matter of weeks. Bitcoin found some support today, **bouncing off its 200-week moving average first time since Feb. 2019...**

BTCUSD vs. 14-Day RSI

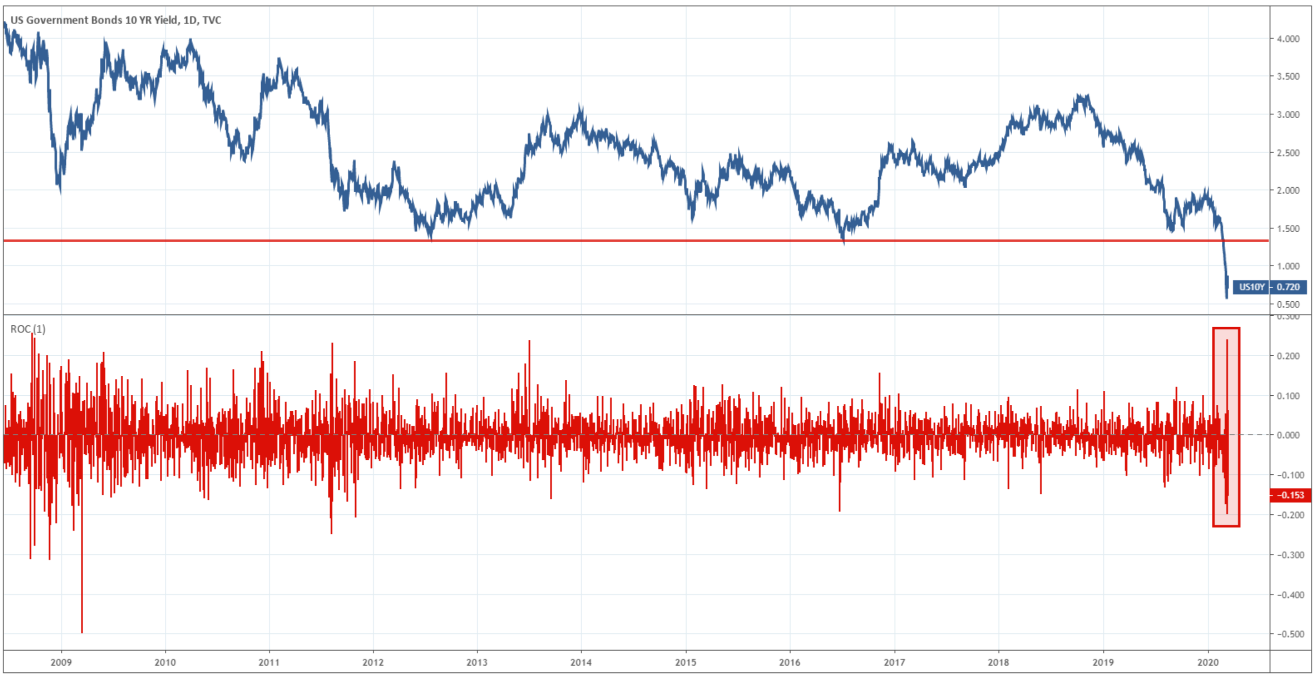
BTCUSD vs. Weekly Moving Averages

Sources: TradingView, Coinbase

Liquidity Dries Up

The U.S. Treasury market is considered one of the most liquid markets on the planet with an estimated average daily trading volume north of $550 billion over the last 12 months. But even the deepest markets can face liquidity crunches. According to data compiled by JPMorgan, **market depth for Treasuries plummeted to levels last seen during the 2008 financial crisis,** with a bulk of the shortfall attributed to longer-dated Treasuries. We've seen daily fluctuations in bond yields spike, adding further support the Treasury market is likely thinning out. Treasuries with shorter durations like T-bills tend to be more liquid, but we're even seeing a pick up in volatility at the front end of the curve as well.

10-Year U.S. Treasury Yield vs. Daily Value Change (bps)



Gold Price vs. VIX Index (2008-09)

It's also important to remember other safe haven assets like gold typically perform poorly during similar times of financial distress.

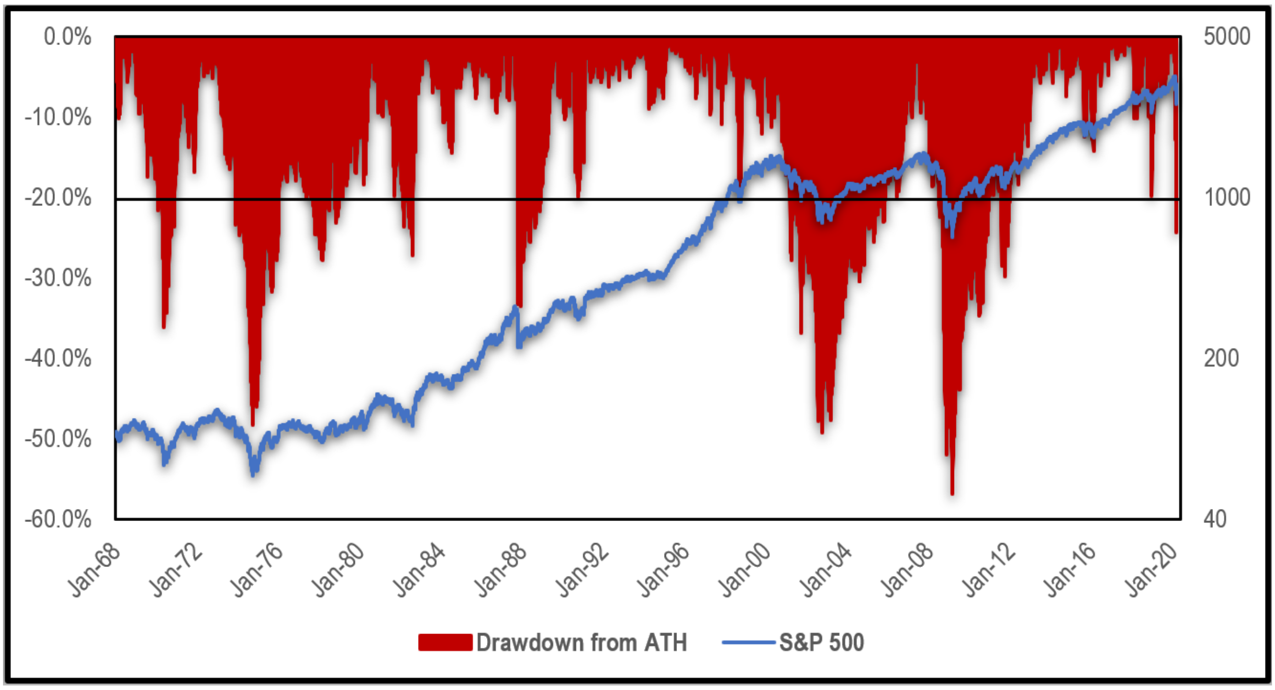
The precious metal actually lost roughly 30% of its value between March and October 2008 even as market volatility spiked to new heights.

Sources: TradingView, Cboe

Bull Run Comes to an End

Just three days after celebrating its 11th anniversary, the longest bull run in stocks came to a crashing end with the S&P 500 breaking below the famed 20% threshold that marks an official market correction. The U.S. benchmark has been absolutely hammered over the last few weeks as panic over the coronavirus finally caught up to risk assets, which had largely been ignoring the warning signs in the bond market. **The index is currently trading 23% off its February 19th all-time high, marking one of the swiftest drawdowns in its history.** The S&P 500 also hit its most oversold level on a weekly RSI basis since 2009.

S&P 500 vs. Drawdown from Closing All-Time High



S&P 500 vs. Weekly Moving Averages & 14-Week RSI (Bottom Panel)

Sources: TradingView

Final Thoughts…For Now

It's important to remember the economic impact of the coronavirus goes far beyond just those who are infected; it threatens to push the entire global economy into a tailspin because it's the **knock-on effects that matter most.**

Government lockdowns, social distancing, company shutdowns, event cancelations – it's all going to have an impact on the way people operate on a daily basis, at least for the foreseeable future. Forcing employees en masse to work from home may hamper productivity, especially among those who aren't accustomed to working in sweatpants. Restaurants and mom-and-pop shops that still rely on customer foot traffic will see sales shrink. More and more corporate events and conferences are being postponed or canceled every day in anticipation of a worsening situation. **The disruptive capabilities of coronavirus go far beyond rising healthcare costs; they threaten corporate profitability and the efficiency of global commerce.**

The collateral damage is far from over. We'll continue to see the number of cases, hospitalizations, and deaths rise as the outbreak finds its way into just about every major pocket of the world. Along the way, politicians and policymakers will try their best to curb its contagion, but to little avail. Instead, most of the efforts will be directed towards supporting industries and businesses threatened by the weakness in demand, especially those with sizable debt obligations struggling to make routine payments. If the credit market goes, so too will the economy, and those at the top know this.

The **limits of monetary policy are becoming more apparent,** and the fiscal stimulus efforts will pile on even more debt to highly leveraged economies. Payroll tax cuts, special lending facilities for SMEs (small and medium sized enterprises), emergency funding to expedite the testing process and increase the number of available test-kits; all of these are an attempt to curb the fallout from what is now deemed a global pandemic.

When the dust finally settles, **larger deficits and near zero interest rates will remain**, making hard, scarce assets an **attractive hedge against the rising risk of broad-based currency debasement.**

More on this to come…

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