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Weekly Market Commentary - January 17, 2020

Sentiment Improves as Crypto Market Rebound Continues

- The turn of the new year reset the calendar and marked somewhat of a reversal for the crypto market, notably BTC, which broke above key resistance levels we've been monitoring closely dating back to its 2019 peak in late June. BTC is less than 3% below its 200-day moving average ($9,100) - the tightest spread in over two months - and is within striking distance of $9,000 for the first time since early November. Geopolitical tensions waned a bit this week, but the latest upswing in BTC continues to show signs of strength.

- The market's hot start to the year has sparked greater optimism among market participants for crypto assets at large; many alternative large and mid-cap names outside of bitcoin have outperformed through the first few weeks of 2020.

- Risk assets, most notably stocks, have seen little disruption to their latest uptrend. Just this week the S&P 500 put in its 27th new all-time high in 60 days, the highest concentration since early December 2017. Unlike 2019, earnings are likely going to play a more crucial role if equity markets are to continue breaking records.

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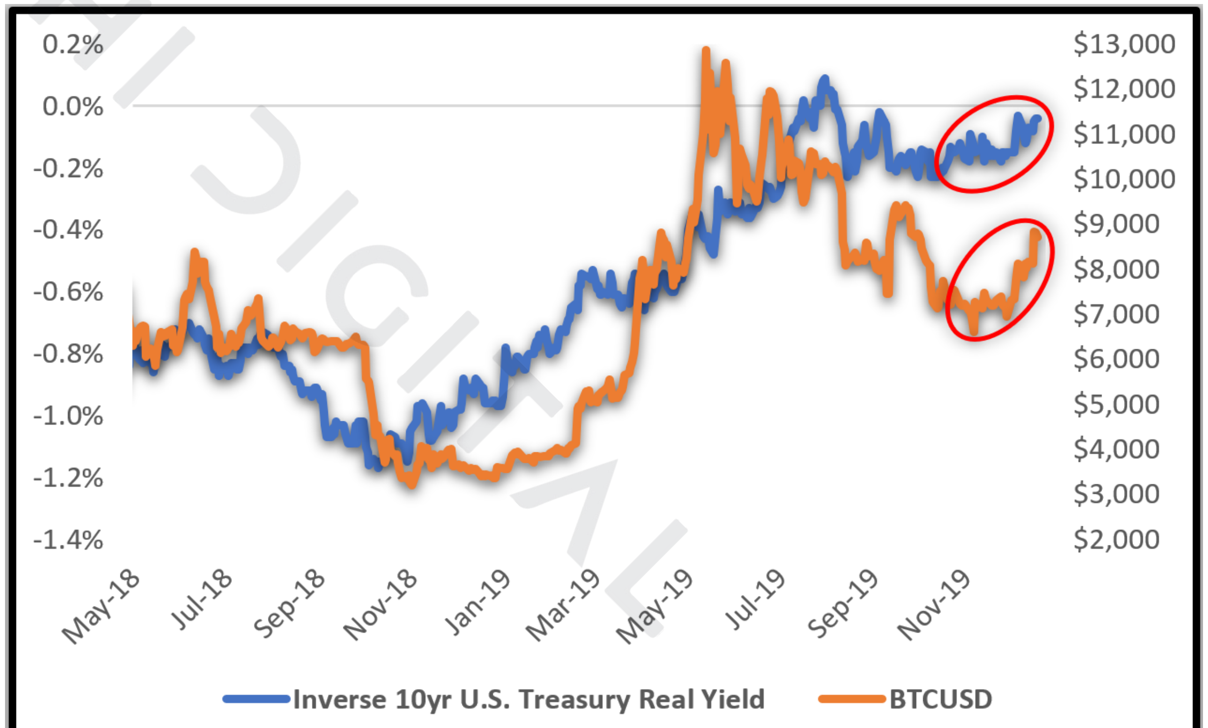
Chart of the Week

Bitcoin is up 25% through the first few weeks of 2020, outshining most conventional asset classes including gold, which has gained roughly 3% since the start of the year. The decline in real yields that characterized much of 2019 helped propel gold to its best year since 2010 as concerns over rising geopolitical tensions and weakening economic data sparked new demand for the precious metal. The recent roll over in real yields sets up a favorable backdrop for both digital and physical gold barring a swift reversal in last year's trend.

BTC vs. Inverted 10-Year U.S. Treasury Real Yield



Sources: Coin Metrics, Federal Reserve

Bitcoin Gains Post-Breakout

New year, new uptrend? It's still too early to call whether the latest BTC upswing is sustainable or just another false breakout, but bitcoin's 2020 bounce does feel a bit different than its late 2019 surges. The turn of the new year reset the calendar and marked somewhat of a reversal for the crypto market, most notably BTC, which broke above the downtrend line dating back to its June 2019 peak. Frequent readers of our research know this was an important level we'd been watching for quite some time as it also coincided with bitcoin's 100-day moving average, which now appears to be key support. The next key level we're watching for is a break above its 200-day MA (~$9,100); BTC is within 3% of its 200-day MA, the tightest spread in over two months.

BTC Downtrend vs. 50 (Blue), 100 (Green), & 200-Day MA (Red)

Data as of January 17th, 2020
Source: TradingView, Coinbase

Bitcoin Sentiment Improves

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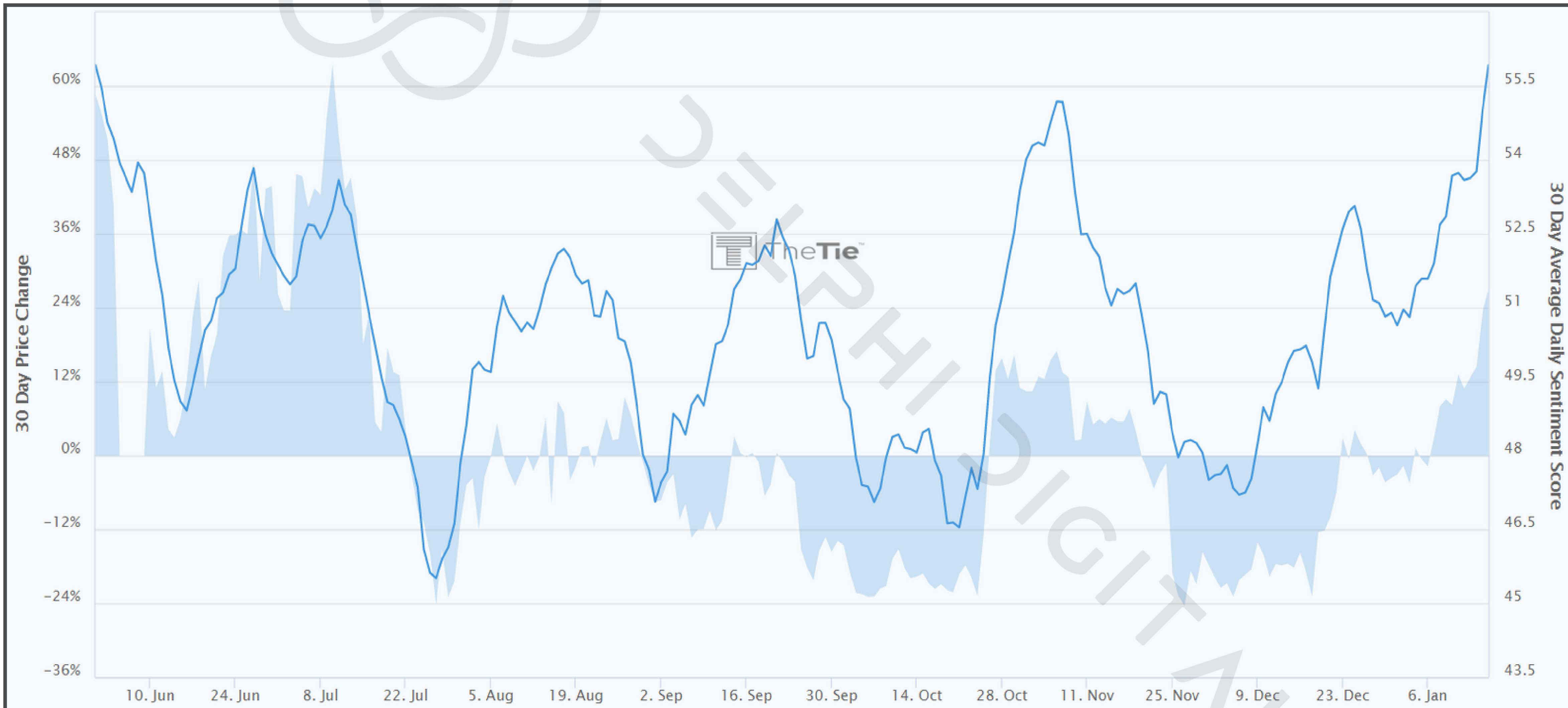
The latest run up in BTC has sparked greater optimism towards the world's largest crypto asset. Sentiment is a critical driver for crypto prices given how inefficient this market still is, often leading to outsized moves (both positive and negative) as other traders and investors play catch up. In fact, bitcoin's 30-day average daily sentiment score just hit its highest level since the final days of May 2019, according to TheTie, an alternative data provider for digital assets, surpassing the late 2019 levels that coincided with the last few BTC price jumps.

Bitcoin's 30-Day Avg. Daily Sentiment Score (Line) vs. 30-Day Price Change (Shaded Area) - TheTie



Data as of January 16th, 2020
Source: TheTie

Fear & Greed Index Jumps

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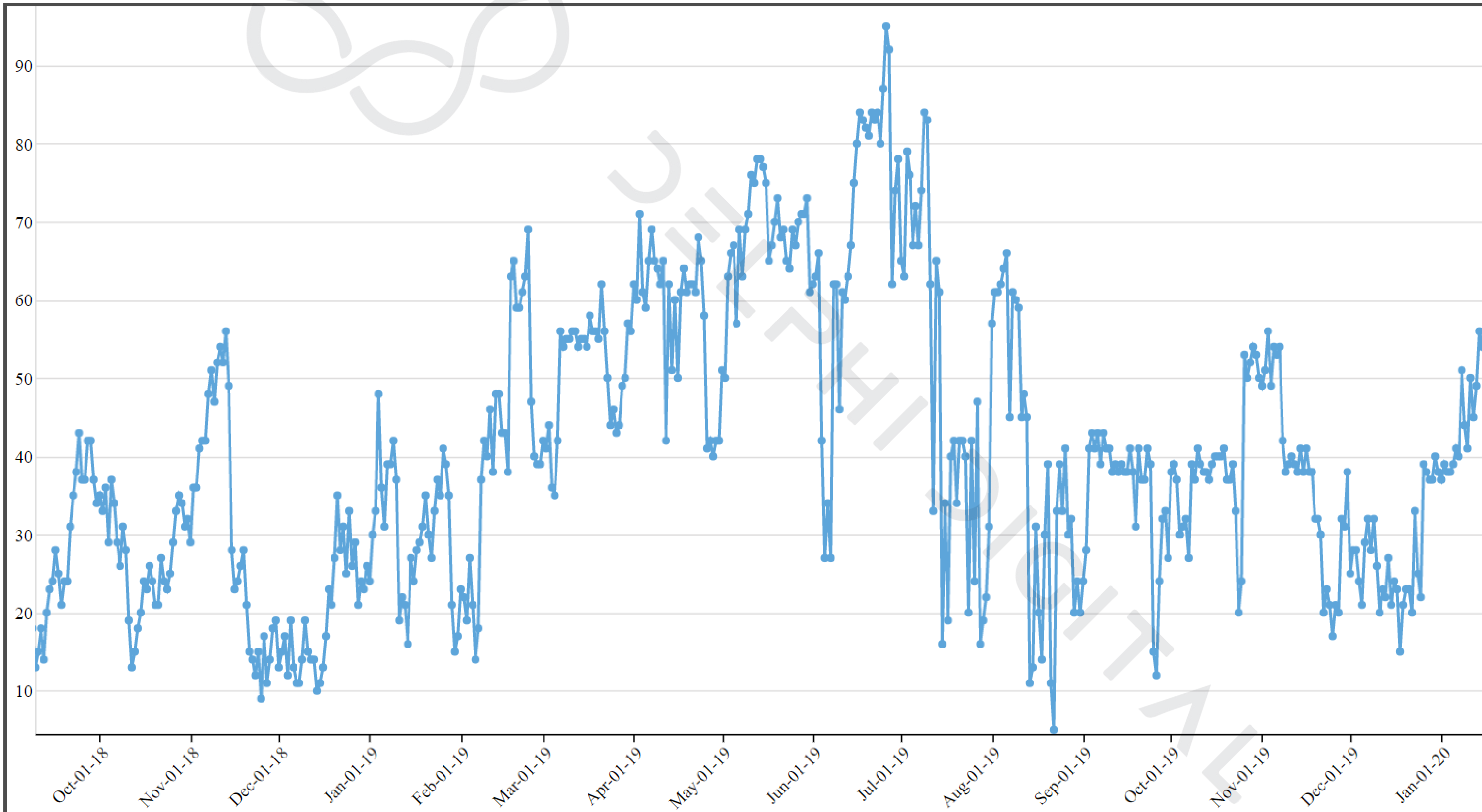
Similarly, the Crypto Fear & Greed Index, which measures bitcoin sentiment across a variety of metrics (social media, surveys, Google Trends, etc.), has also turned higher the last couple weeks, currently hovering around its November high (56). Clearly this indicator has more room to run but a continued move higher could signify BTC's latest rally is different from ones in recent memory.

Crypto Fear & Greed Index



Data as of January 16th, 2020

Source: Digital Assets Data, Alternative.me

Geopolitical Risks Wane

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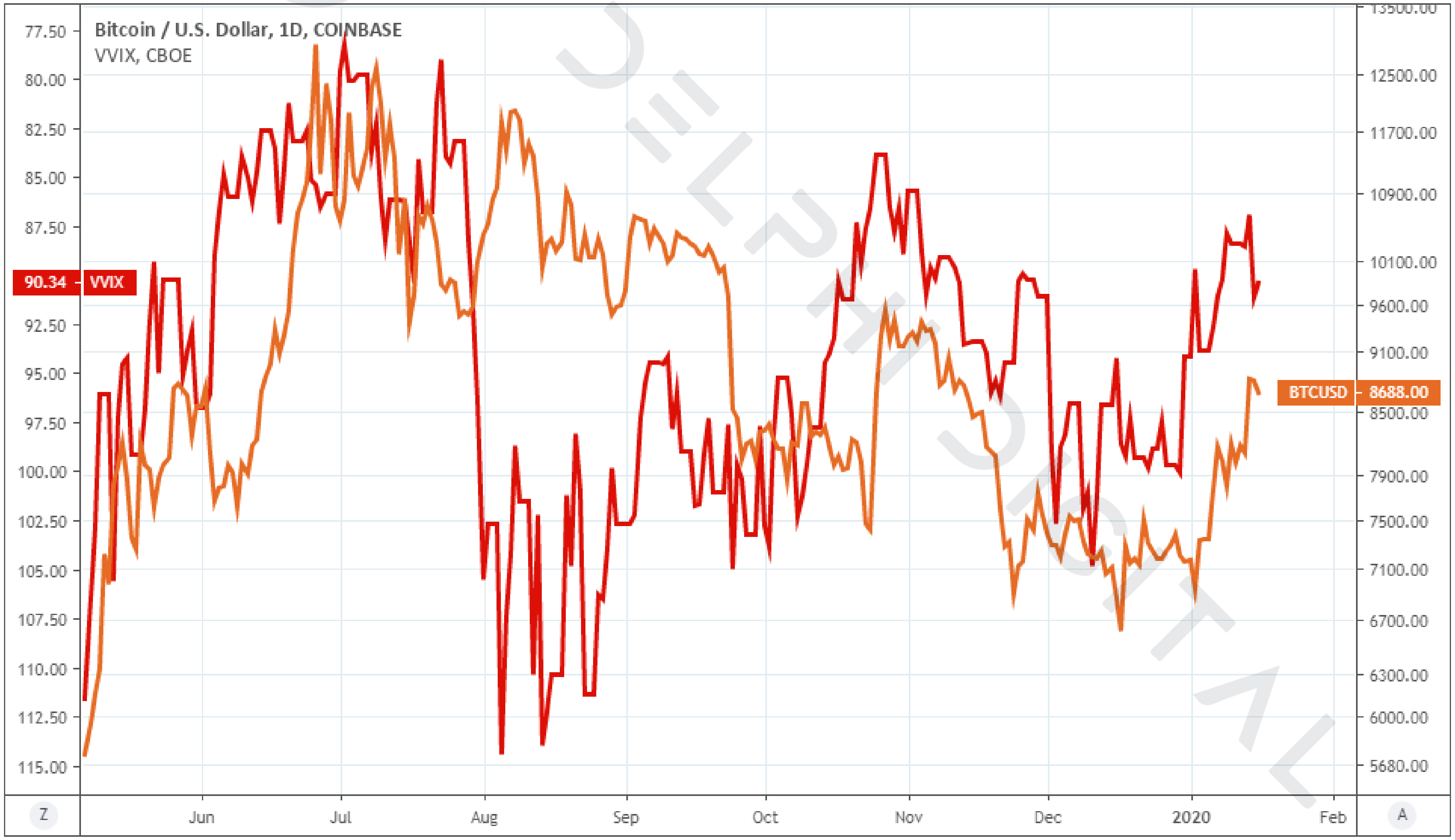
The new year kicked off with a bang as tensions between the U.S. and Iran reached a tipping point, causing widespread concern another war was at our doorstep. Last week, we noted some of BTC's largest gains occurred outside of normal U.S. trading hours during the peak of Iran's retaliation, but bitcoin has continued to show strength even as efforts to deescalate the situation appear to be calming markets, at least for now. Likewise, the U.S. and China put their swords away for the time being to sign the highly anticipated phase one deal of a seemingly larger trade pact between the two global superpowers. While the terms of the deal still leave much to be desired, the signaling of an eventual end to these ongoing trade disputes has sparked some optimism over the prospects of the global economy. Expectations for equity market volatility have fallen a bit, which historically bodes well for BTC (even though one could argue the swift rise in uncertainty recently helped propel bitcoin's latest breakout).

Bitcoin Price (Orange) vs. Inverted VVIX Index (Red)



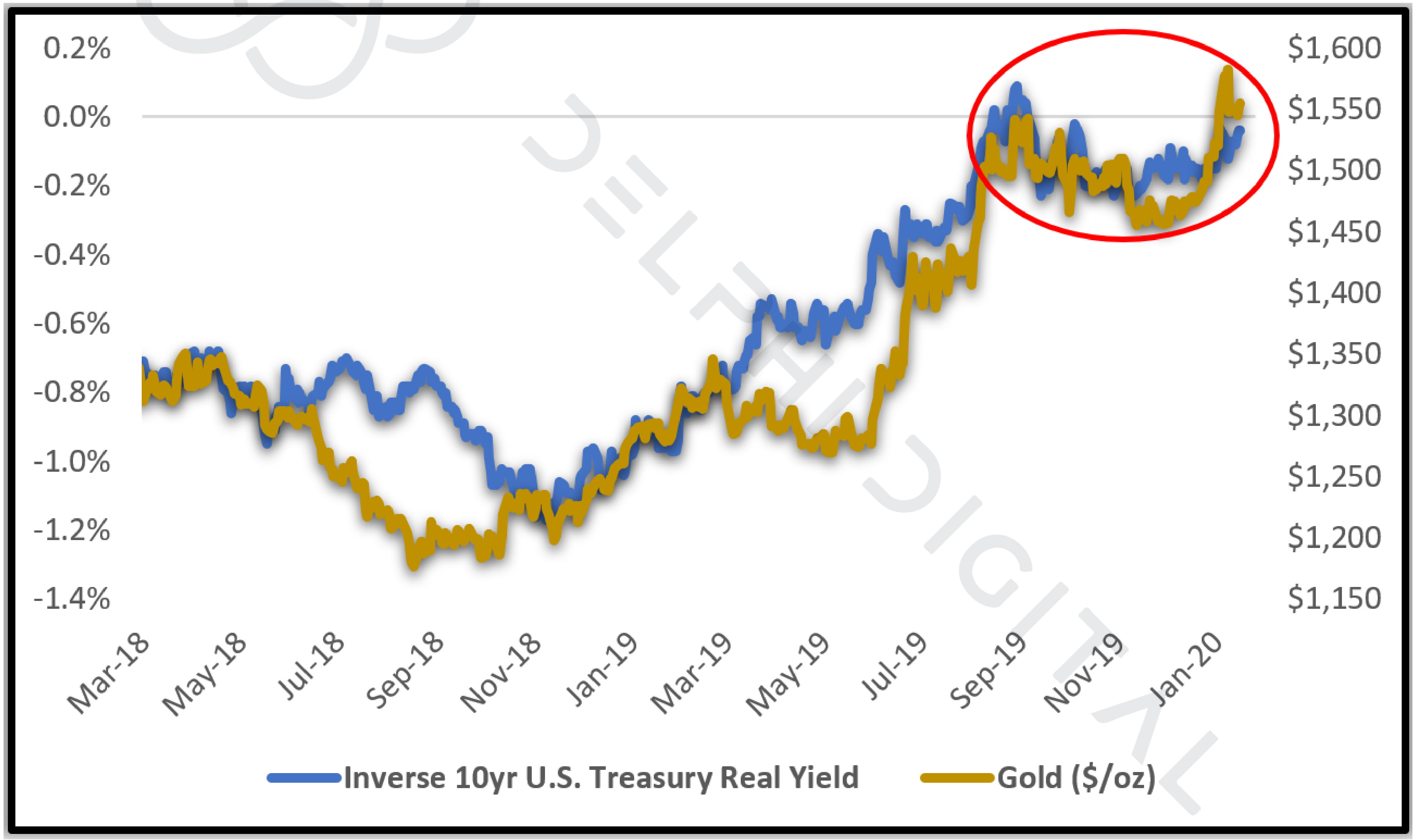
Data as of January 16th, 2020

Source: TradingView, Coinbase, Cboe

Real Yields Roll Over

The recent backup in U.S. Treasury bond yields supports the notion concerns over the latest wave of geopolitical risks are abating. However, much of the weakness in government debt has been driven by rising inflation expectations rather than greater economic prospects. Nominal yields on 10-year U.S. Treasuries have risen by 20 bps since the first week of October, but real yields, which adjust for inflation, are flat over the same period after rising roughly 20 bps through mid-November. The latest decline in real yields bodes well for assets like gold and bitcoin.

Gold Price vs. Inverted 10-Year U.S. Treasury Real Yield (Blue)



Data as of January 16th, 2020

Source: Federal Reserve Bank of St. Louis

Real Demand Driving Gold

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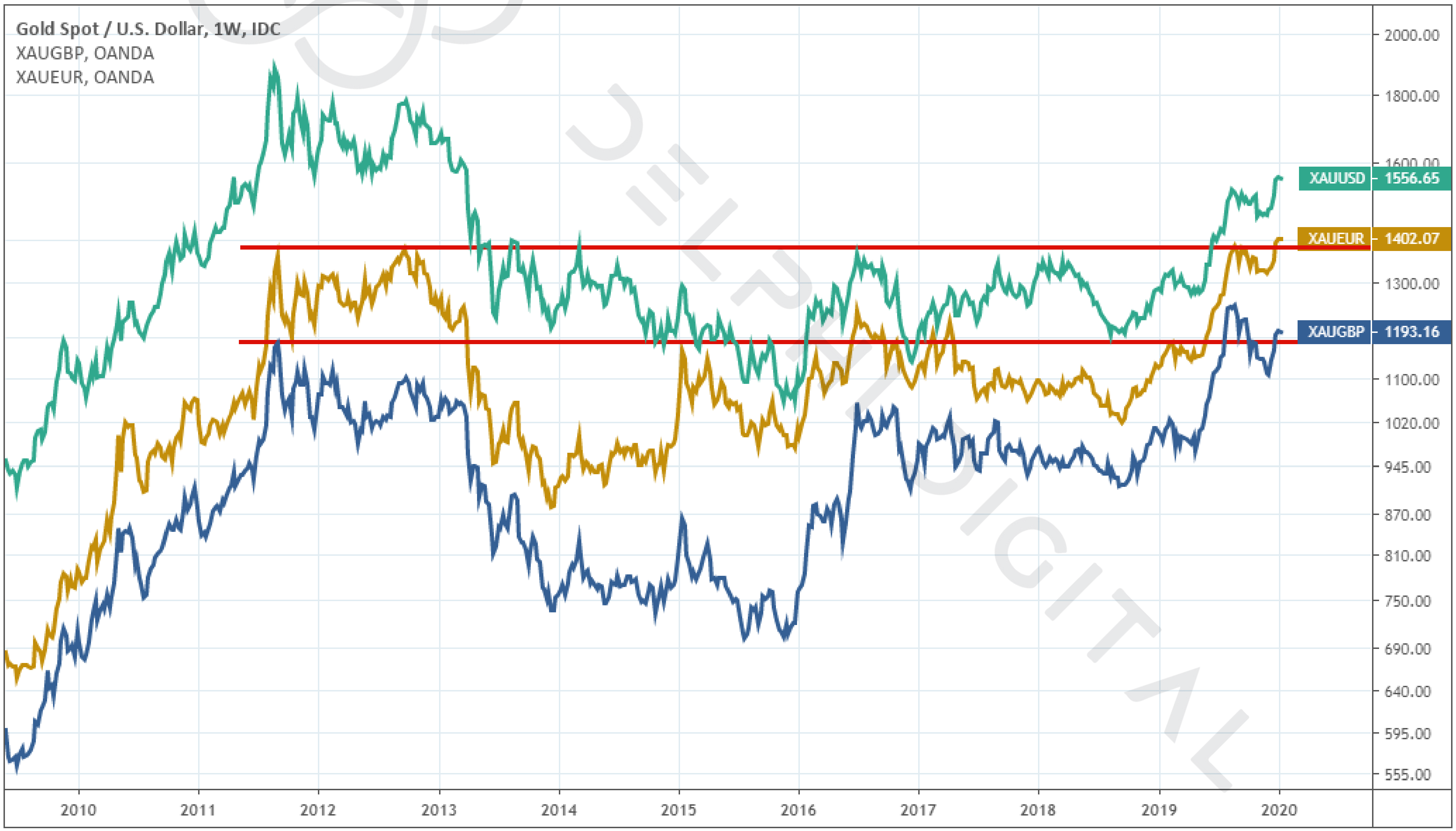
Gold has been on a run since its breakout in late December, which capped off the best year for the precious metal since 2010. Dollar weakness in Q4 was a partial contributor, but arguably the biggest driver has been real demand from both investors (evident in the recent record high in gold-backed ETF holdings) as well as global central banks (led by several emerging countries like Russia, China, etc.). Gold priced in USD still sits almost 20% off its 2011 high, but gold denominated in other major currencies like the euro and pound sterling has broken to fresh all-time highs, indicating an increase in global demand for the precious metal outside of just currency fluctuations.

Gold Priced in USD, EUR, & GBP



Data as of January 17th, 2020

Source: TradingView

Stocks Can't Be Stopped...

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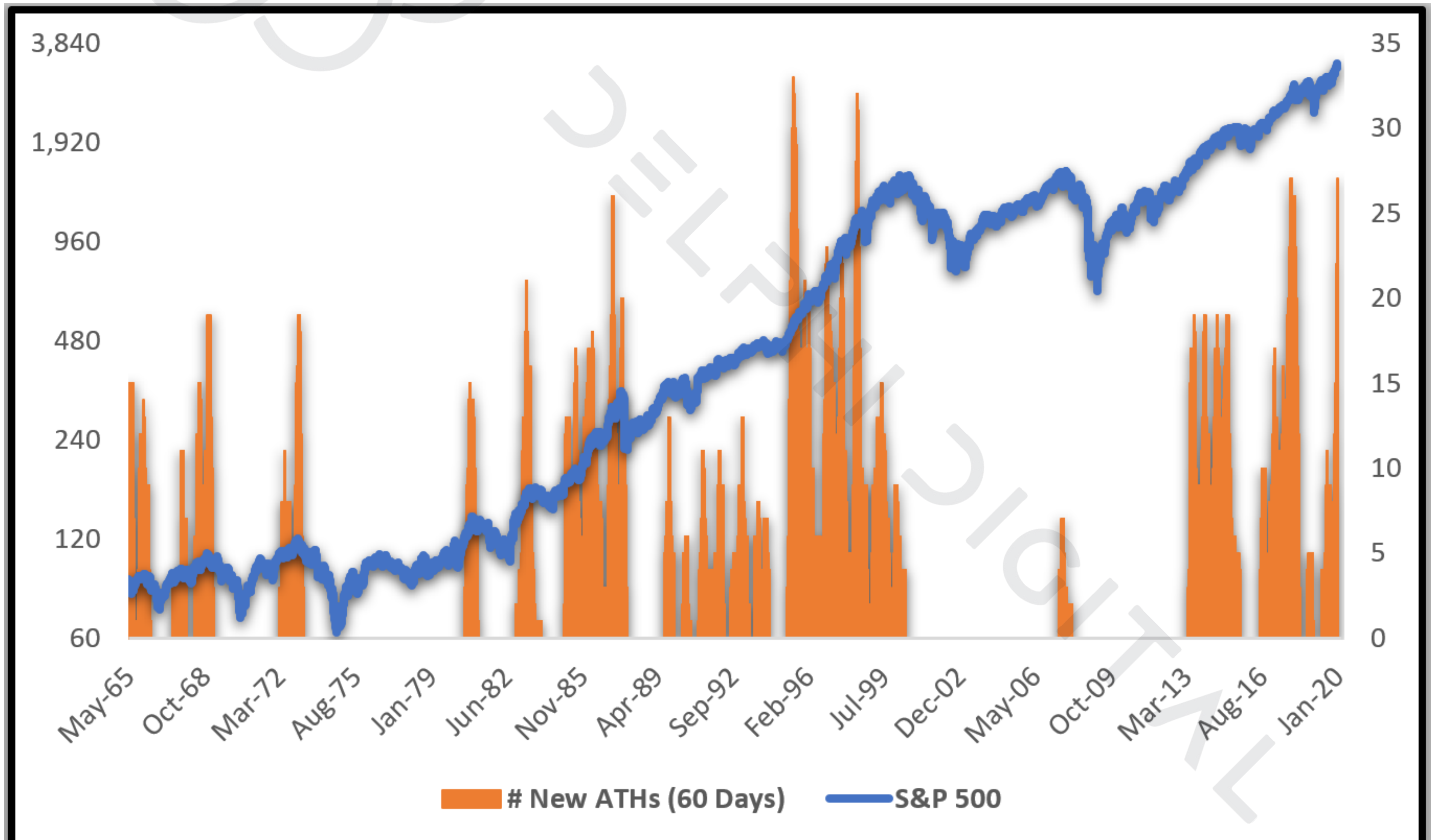
...or at least that's the impression many are getting given the equity market's latest price swell. Just this week the S&P 500 put in its 27th new all-time high in 60 days, the highest concentration since early December 2017. Notably, almost 85% of its constituents are trading above their 200-day moving average, indicating stronger underlying breadth across the index. However, the U.S. benchmark is still dominated by mega-cap tech names, which makes it largely dependent on the sector's performance. In fact, the five largest stocks in the S&P 500 make up over 17% of the index, the highest level since at least 1990, according to recent data from Bespoke.

S&P 500 (Top Panel) vs. % Stocks Trading Above 200-Day MA



Data as of January 16th, 2020
Source: S&P Dow Jones

Earnings Season Kicks Off

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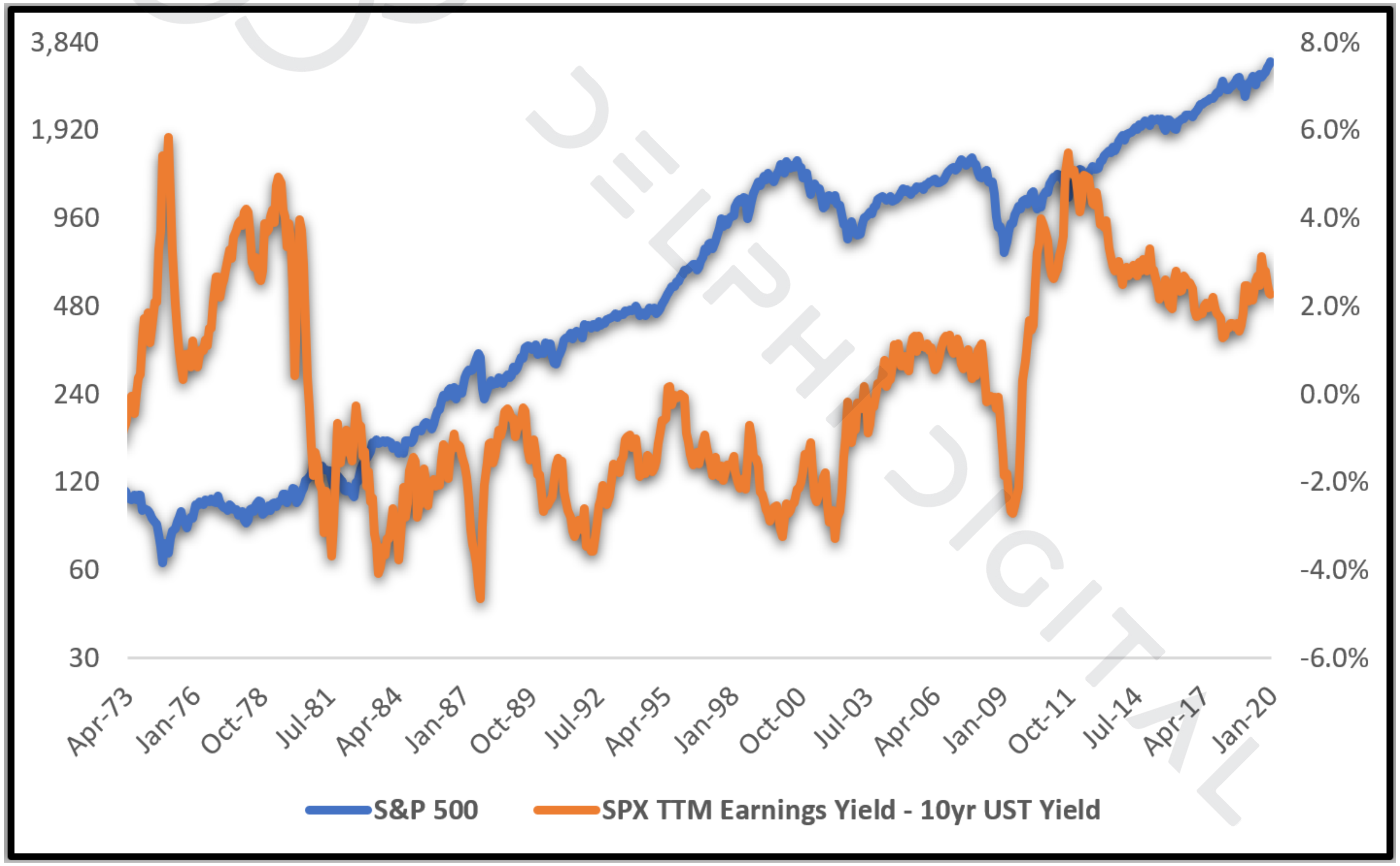
It's that time of the year again when analysts devour the latest annual numbers from the world's largest public companies, scouring press releases and earnings calls for hidden gems of information that may give them an investing edge. Earnings are now front and center for market participants coming off a hallmark year for equity returns as last year's gains were driven more by multiple expansion than profit growth. While the earnings outlook is arguably modest at best, we know nothing operates in isolation. Stocks may appear expensive relative to their own history, but compared to fixed income alternatives equities actually appear fairly cheap. For example, the S&P 500's trailing earnings yield (inverse of price-to-earnings ratio) is 2.3% higher than yields on 10-year U.S. Treasuries compared to its 5 and 25-year averages of 2.1% and 0.7%, respectively.

S&P 500 Index vs. TTM Earnings Yield - 10yr U.S. Treasury Yield Spread



Data as of January 16th, 2020

Source: S&P Dow Jones, Federal Reserve Bank of St. Louis

Investor Sentiment Less Than Euphoric

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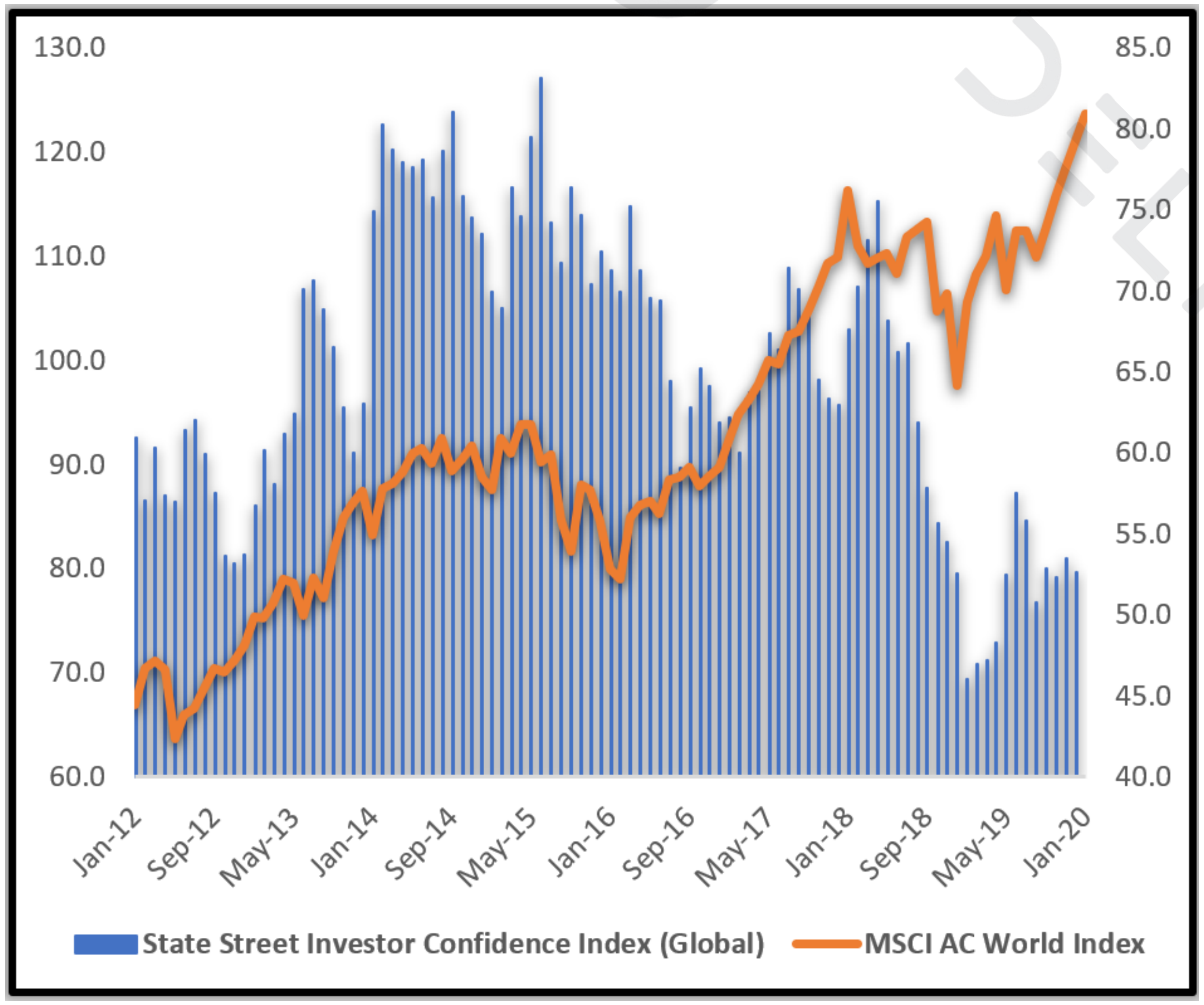
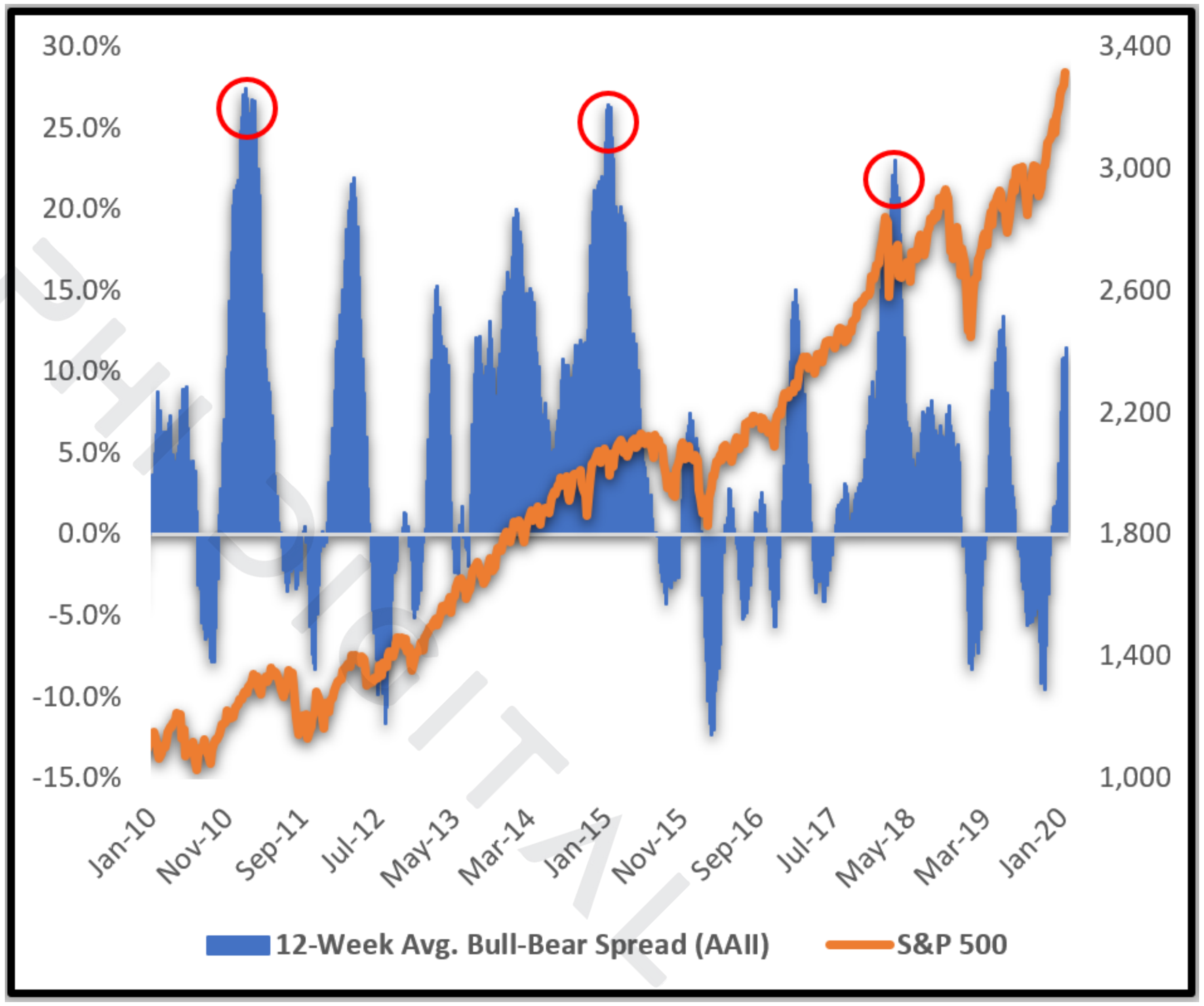
Tracking sentiment data can also serve as a strong contrarian indicator in the equity markets. When investors are wildly bullish, often that's a good time to sell or at least pair back your equity exposure. Conversely, when investors are beyond bearish, usually that's a strong indicator a bottom may be forming – you buy when there's blood in the streets. Despite their banner year in 2019, investors are still not overly enthusiastic about stocks, neither in the U.S. or globally. We noted the recent low in the American Association of Individual Investors Bull-Bear Spread towards the end of last year as an indicator the latest rally may have more room to run; the S&P 500 is up over 12% since. Optimism has picked up considerably, however, but is still well below levels preceding large prior drawdowns.

State Street Global Investor Confidence vs. MSCI AC World Index



AAII Sentiment Survey Bull-Bear Spread vs. S&P 500



Data as of January 16th, 2020
Source: State Street, AAII

Crypto Asset Movers & Shakers

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Notable Large-Cap Crypto Asset Returns

	7D	30D	90D	YTD
DASH	150.75%	206.92%	87.18%	58.83%
ZEC	63.65%	82.05%	41.41%	-13.62%
ETC	61.74%	142.25%	90.07%	61.38%
EOS	39.31%	74.50%	33.01%	45.54%
BCH	37.29%	84.61%	53.96%	103.14%
LTC	28.19%	55.38%	7.93%	82.67%
MIOTA	27.91%	45.24%	-16.15%	-34.83%
TRX	23.50%	38.96%	12.57%	-11.66%
NEO	19.40%	41.77%	58.20%	41.52%
ETH	18.81%	34.42%	-5.13%	18.82%
BNB	17.64%	36.92%	-6.70%	188.77%
ADA	14.61%	30.70%	9.44%	-2.31%
XLM	13.31%	23.50%	-15.02%	-53.56%
XRP	11.89%	24.47%	-22.28%	-37.29%
BTC	11.51%	32.08%	9.60%	128.70%
XMR	10.76%	43.58%	18.53%	37.89%
XEM	9.99%	13.85%	-10.00%	-46.45%
MKR	7.88%	7.86%	3.54%	14.94%

Data as of 01/16/20

*****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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