DELPHI DIGITAL

Weekly Market Commentary - January 3, 2020

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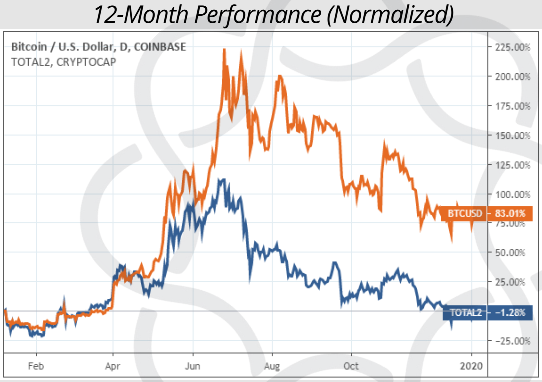
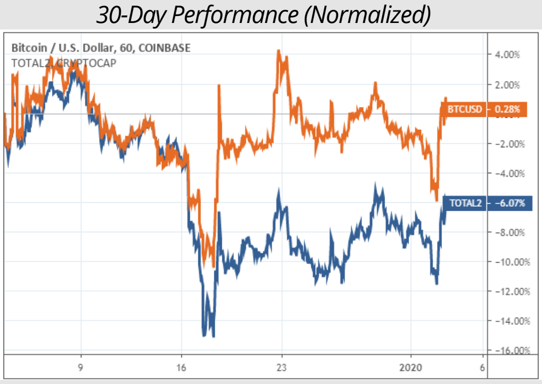
Total Public Market Value (ex-BTC)

12-Month Performance (Normalized)



6-Month Performance (Normalized)

30-Day Performance (Normalized)



Bitcoin Reigns King in 2019 Despite Drawdown

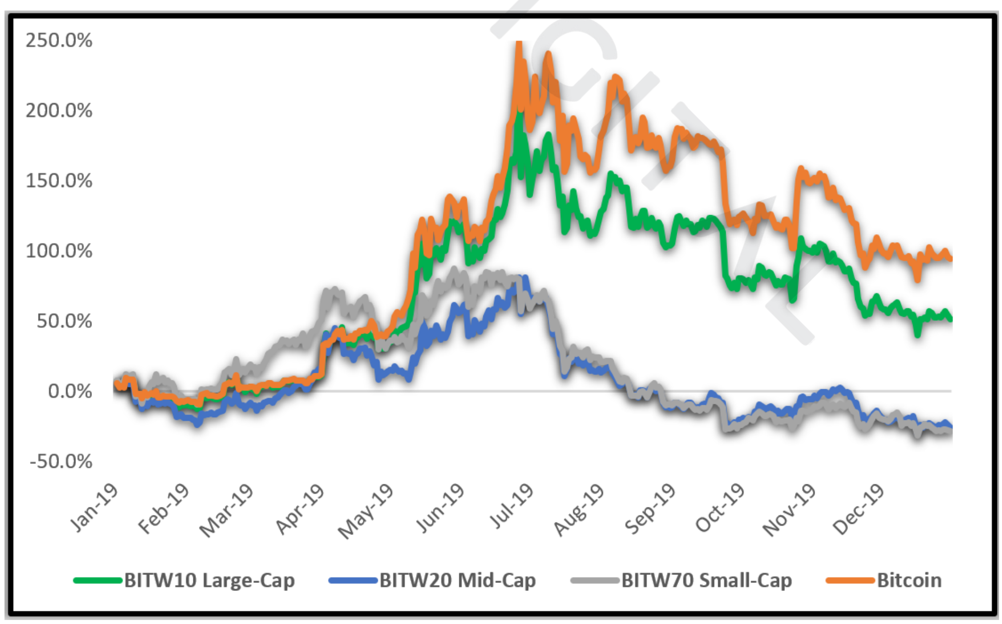
- Despite suffering such a drastic drawdown from its summer high, bitcoin still reigned king in 2019, boasting one of the best returns for any asset class. Its late week rally has pushed BTC back up to its 50-day MA, a level it hasn't broken above since mid-November, though we're still cautious on its near-term outlook until it breaks above $8,000 for an extended period; such a move would also drive BTC above its 100-day MA.

- Gold rose 18% in 2019, marking its best year since 2010, on the back of more accommodative monetary policies and rising uncertainty around trade and geopolitical disputes. Gold bugs got one final gift this holiday as the precious metal rallied back above $1,500/oz, breaking out of its recent consolidation pattern. The risk-off move to end the week drove the precious metal even higher ($1,550), pushing its 14-day RSI above 80 for the first time since June.

- Equity investors are buying up protection against downside market volatility following one of the best years for the S&P 500 since the turn of the century as expectations for 2020 returns are far more modest.

Chart of the Week

BTC (Orange) vs. Large, Mid, Small-Caps (Bitwise) - 2019 Returns



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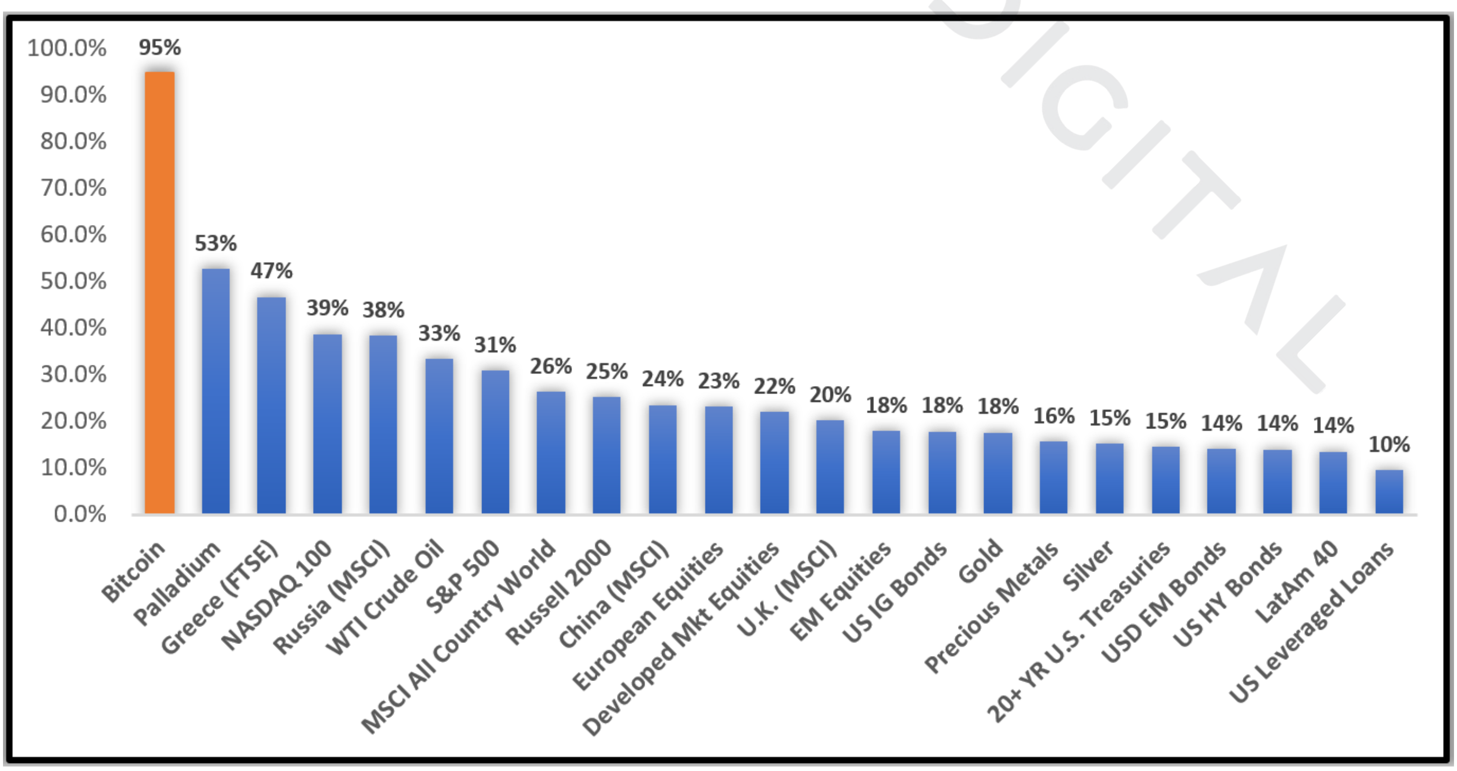
Sources: Bitwise, CryptoCap, TradingView, Coinbase

Crypto Enters the Macro Realm

Macro investing was my first love, which is why a good portion of my day-to-day involves not only developing our own outlook for various markets but also staying abreast with shifts in current market consensus. Fortunately, crypto assets have begun to make their way into select investing circles, specifically those with a focus on global macro, given their potential upside in a world of negative interest rates and souring sentiment towards today's centralized tech incumbents. A common criticism I often hear, however, is bitcoin "lacks any intrinsic or fundamental value", which is typically followed by "and therefore isn't valuable." Such logic angers crypto enthusiasts, **but to dismiss these criticisms also fails to move the conversation forward.** Prudent investors go through a rigorous process before allocating to a new opportunity, often conducting their own research, developing an investment thesis, and figuring out the appropriate vehicle to express their views. If a portfolio manager doesn't understand a potential investment, then it isn't prudent for them to invest in it. Part of the beauty of the paradigm shift underpinning the crypto investment thesis is it's being driven by an entirely different investor base; unlike emerging asset classes of the past, **developers and "techies" were among the earliest market participants, not institutions.** This industry also appeals to younger generations, so the skepticism conveyed by many of today's most successful investors is understandable. But this divide is shrinking. Traditional investing offers a baseline of frameworks to understand how value may or may not accrue to a particular project or token. There are certainly many nuances to crypto assets that well-established valuation techniques fail to consider, but a strong understanding of these methodologies allows you to tweak or even reinvent those frameworks to develop a better understanding of how value will be captured in a more decentralized world. **Although it may not seem like it, sophisticated investors are coming around, slowly but surely; bitcoin's star-studded performance last year - and over the last decade - certainly hasn't hurt.**

Major Asset Class % Changes in 2019

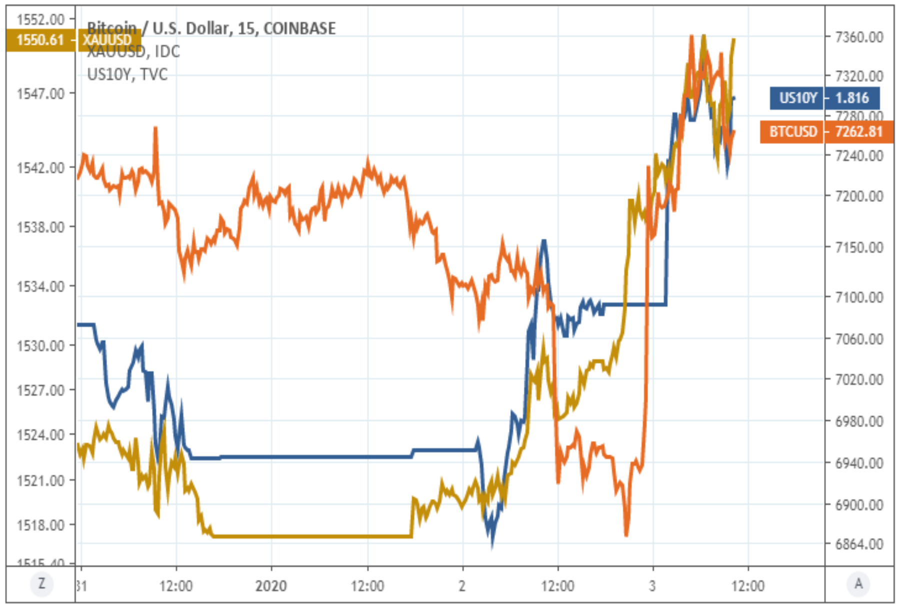


Sources: Coin Metrics, FTSE Russell, BlackRock, S&P Dow Jones, MSCI

Bitcoin Rebounds with Safe Havens

Bitcoin has suffered a drastic drawdown from its 2019 high, far greater than other safe haven assets like gold and Treasuries. However, BTC caught a bid overnight alongside these assets as **geopolitical uncertainty jumped following breaking news of a U.S. airstrike** that killed Iranian general Qassem Suleimani, escalating tensions between the two countries. To be clear, **this is not to say citizens in the Middle East exposed to such fallout are buying up BTC,** but rather a notable observation of similar price action in both digital and physical gold to end the week.

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



We addressed several key trends we are watching in a short note last week, one of which is BTC's attempt to break above its 50-day MA (currently $7,390) for the first time since November. We still need to see **BTC break back above $8,000 for an extended period to consider any uptrend or reversal sustainable;** this would also push BTC above its 100-day moving average (currently $7,960).

BTC vs. 50 (Blue) & 100-Day MA (Green)

Volatility Decline Sets Up Big Move

Price volatility for bitcoin steadily declined over the last few weeks to levels last seen just before the violent moves we witnessed in September and October, raising the likelihood of a big move in the not too distant future (assuming history is any guide).

Bitcoin has traded in a relatively tight range for much of the last month, but the modest rally to end the week still has a long way to go if it's going to prove to be material.

BTC Price vs. 60-Day Volatility

The v-shaped bounce in bitcoin's 4-hour MACD appears somewhat like its last couple price jumps, meaning there may be a bit more room for BTC to run. **However, these price rallies proved to be short-lived so we're cautious on the near-term outlook BTC.**

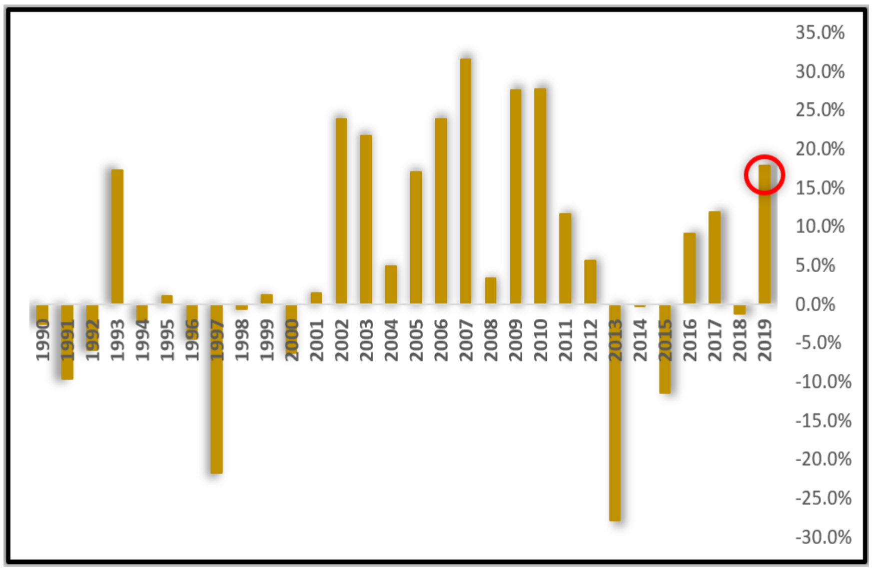
BTC Price vs. 4-Hour MACD

Sources: Coinbase

Gold Breakout Accelerates

The price of gold rose almost 18% in 2019, marking its best year since 2010, on the back of a pivot towards more accommodative monetary policies and rising uncertainty surrounding trade and geopolitical tensions. Gold bulls got one final gift this holiday season as the precious metal rallied back above $1,500/oz, breaking out of its recent consolidation pattern and above its downward trendline since early September. This week's jump also pushed its **14-day RSI above 80 for the first time since June.**

Gold Annual % Change



Gold experienced a similar consolidation period earlier this year just before its Q2 run up. Initially, gold retested key support levels almost immediately following the breakout, but the pullback was short-lived; the precious metal went on to **rally about 20% over the subsequent three months.** Real yields, which began to tick higher just as gold peaked in September, have stagnated the last several weeks. **Lower real yields are considered bullish for gold and other non-income producing assets like bitcoin.**

Gold Price Breakout vs. 14-Day RSI

U.S. Dollar Breaking Down

The strength of the U.S. dollar through the first three quarters of 2019 contributed, at least in part, to concerns over a "synchronized global slowdown", a narrative that drove investors into safe haven assets like Treasury bonds and gold. However, the greenback has started to roll over with the U.S. Dollar Index's (DXY) 50-day moving average crossing below its 200-day equivalent earlier this week. **The last time the index experienced a "death cross" was in May 2017; the dollar fell another 6% over the subsequent three months.**

U.S. Dollar Index (DXY) vs. 50 (Blue) & 200-Day MA (Red)

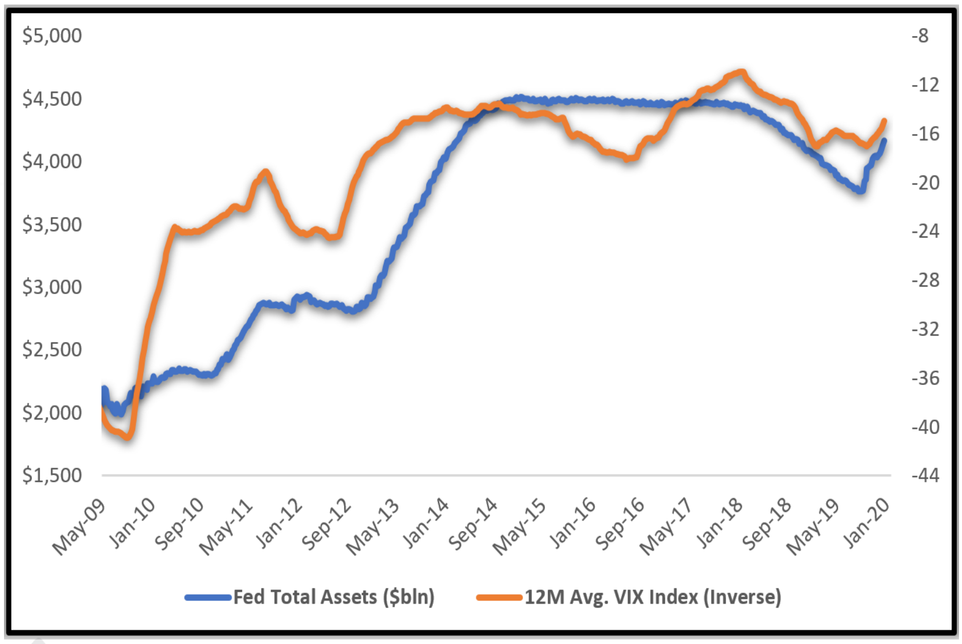
In the 8 total occurrences the last 15 years, the dollar index was lower in 5 of those instances over the next 30 days. Recent dollar weakness also coincided with a pickup in bond yields both in the U.S. and across major foreign markets. **Further depreciation in the dollar would support improving sentiment among market participants for global growth the next few years, which could push up real yields from near record lows.**

U.S. Dollar Index (DXY) Breakdown vs. 14-Day RSI

Monetary Stimulus Reduces Volatility

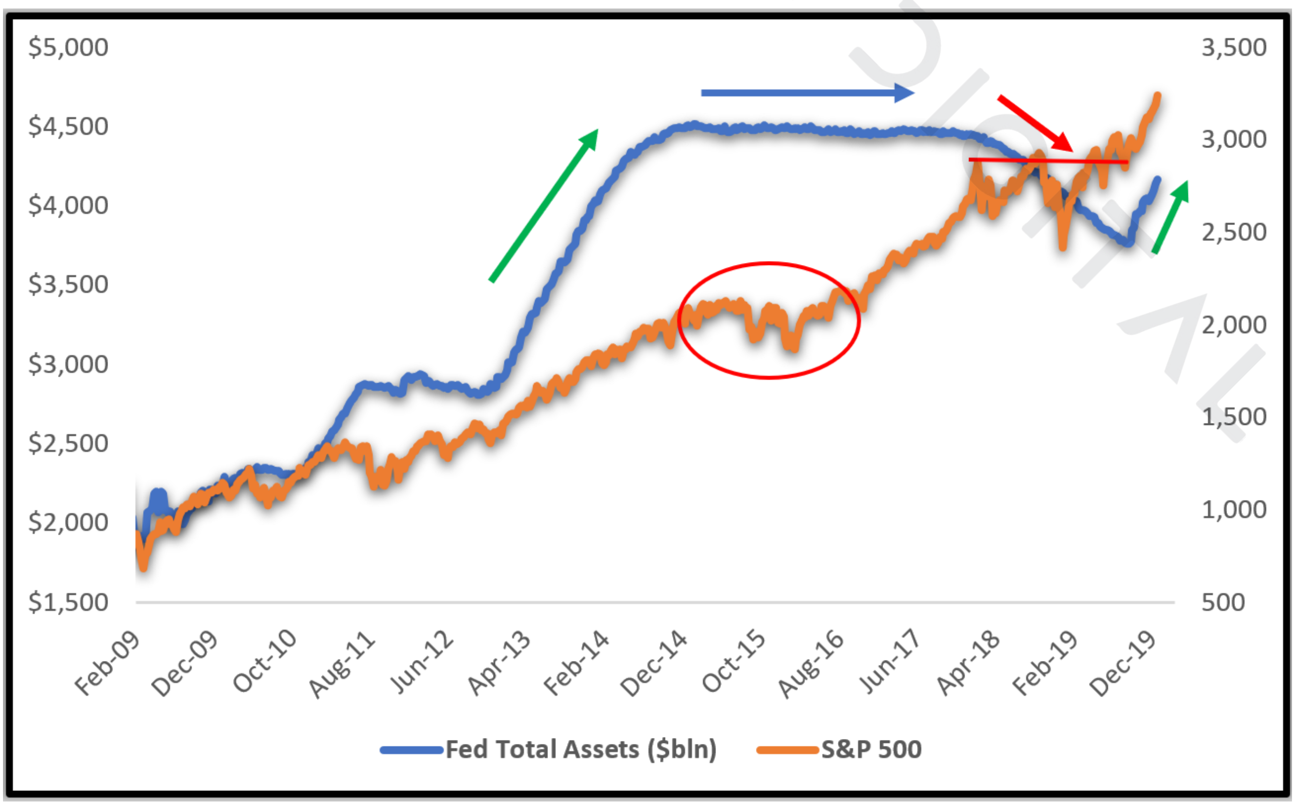
The global equity market had a stellar 2019, **adding more than $17 trillion** in value last year alone. Once again, U.S. stocks were out in front of most international markets as the S&P 500 returned more than 30% for just the second time over the last two decades. **The U.S. benchmark hasn't experienced a true "melt-up" yet** - typically characterized by a period of rapid price appreciation - but downside risks for stocks are high relative to their potential upside, making the risk-return trade-off less attractive than this time a year ago.

Fed Total Assets vs. VIX Index (Inverse)



As we've noted, the surge in asset prices that characterized 2019 was largely driven by the global shift towards easier monetary policy, which helped fuel risk asset outperformance. Historically, **expectations for equity market volatility tend to trend lower when the Fed's balance sheet expands** (whether policymakers want to call it "QE" or not), which does provide a favorable backdrop for risk assets like stocks.

Fed Total Assets vs. S&P 500



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

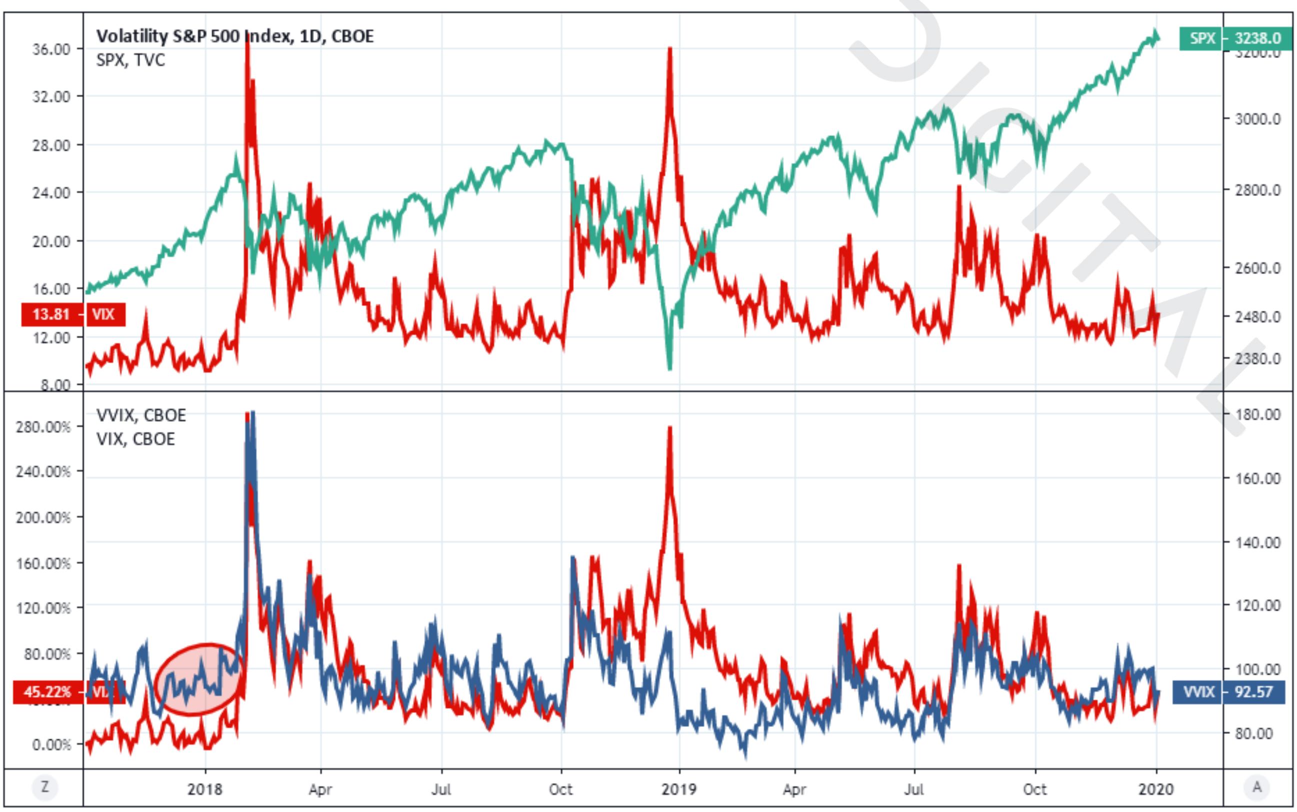
Equity Investors Hedge Downside Volatility

The end of year run up in equities has left many celebrating, but not everyone is convinced the rally is sustainable going forward. Investors have been buying up insurance on equity market volatility in order to hedge against an abrupt drop in stock prices, evident in the VVIX Index's recent rise, which measures the expected short-term volatility in the VIX. Notably, the S&P 500's 14-day RSI and its weekly equivalent are also the **most overbought they've been since the end of 2017/early 2018.**

S&P 500 vs. 50, 100, 200-Week MA & 14-Week RSI

The last time its 14-week RSI broke above 70, the S&P 500 **continued to rise another 15%** over the following four months before its late Jan. 2018 peak, implying the U.S. benchmark still has a little room to run (barring any drastic negative news or change in sentiment). Nonetheless, **investors are still seeking protection against market volatility** even though the VIX is still well below its longer-term average.

S&P 500 (Green) vs. VIX (Red) & VVIX Index (Blue)



Sources: S&P Dow Jones, Cboe, TradingView

Crypto Asset Movers & Shakers

The crypto market is coming off a year characterized by two very different halves; **the first six months of 2019 were cause for celebration while the last six months squashed a lot of enthusiasm.** Large-cap crypto assets dominated last year – led by none other than BTC – with the Bitwise 10 Large Cap Crypto Index returning **over 50% in 2019 compared to 25-30% drop in its mid-cap and small-cap peers.** Some smaller names held up relatively well compared to large-cap peers in Q4, but the outperformers last year were few and far between. In true crypto fashion, we've seen **both a price slump and subsequent rebound in the opening days of 2020.** We expect this emerging asset class to remain highly volatile, especially compared to more conventional assets, for the foreseeable future. After all, greater upside volatility is only possible with higher drawdown risk to complement it.

Top Crypto Asset Returns

	7D	30D	90D	YTD
BCH	4.03%	-7.85%	-12.00%	21.39%
ETH	0.97%	-13.97%	-27.84%	-7.98%
MKR	0.81%	-14.39%	1.48%	-3.21%
XMR	0.55%	-14.62%	-20.04%	-3.55%
XEM	0.37%	-8.72%	-19.90%	-52.55%
DASH	0.19%	-22.14%	-42.37%	-49.90%
MIOTA	0.05%	-22.35%	-41.21%	-54.53%
NEO	-0.93%	-5.71%	14.94%	6.55%
XRP	-1.15%	-14.89%	-25.94%	-48.58%
BNB	-1.21%	-15.00%	-16.81%	121.11%
LTC	-1.69%	-12.25%	-30.23%	25.19%
ZEC	-2.16%	-1.19%	-27.06%	-53.84%
EOS	-2.59%	-9.22%	-18.44%	-6.75%
XLM	-2.61%	-21.98%	-25.77%	-62.20%
BTC	-3.69%	-5.16%	-15.03%	81.90%
TRX	-4.18%	-16.02%	-12.22%	-34.62%
ADA	-4.50%	-13.69%	-16.96%	-23.10%
ETC	-6.26%	9.80%	-8.14%	-18.99%

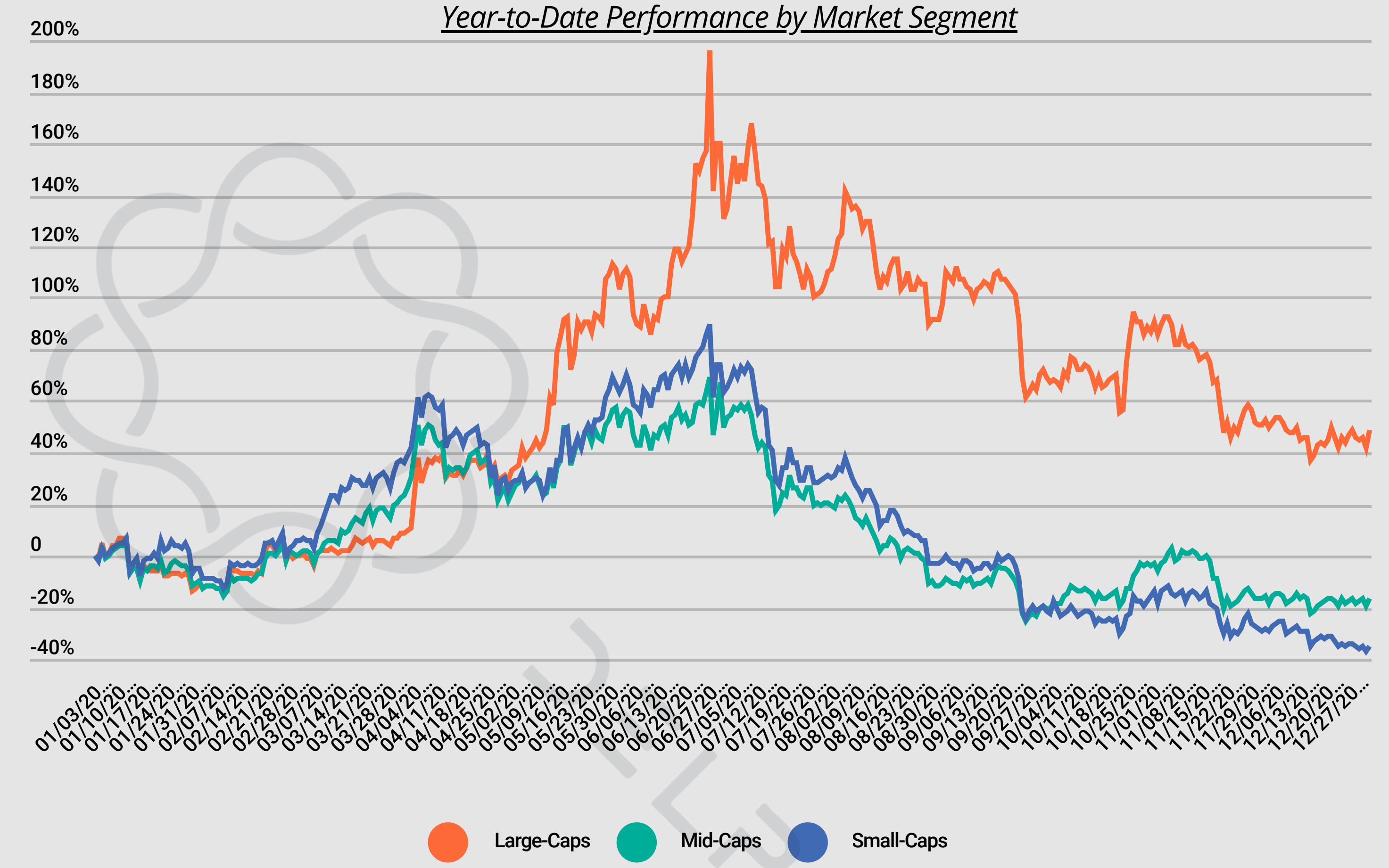
Data as of 1/2/20

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

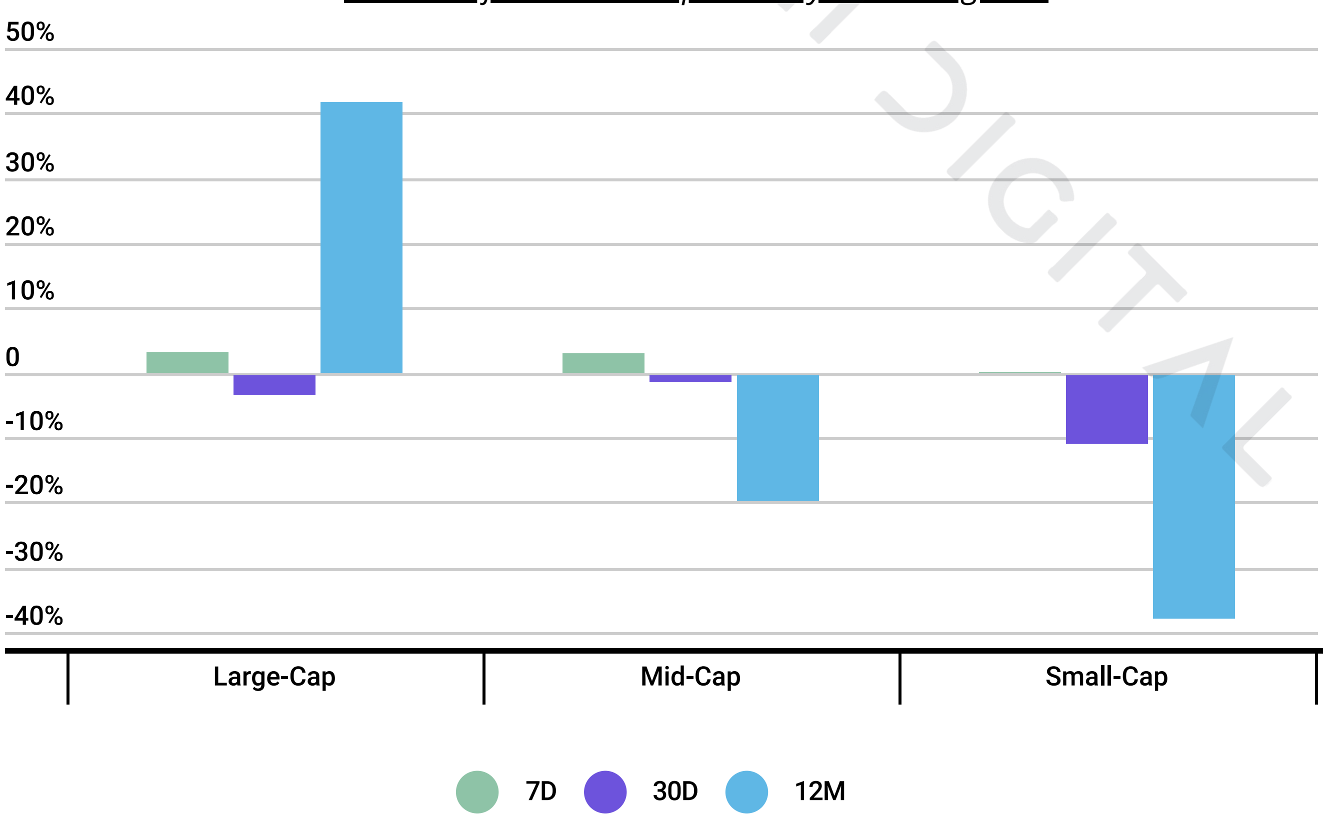
Digital Assets Data

Large-Caps Dominate 2019

Year-to-Date Performance by Market Segment



Recent Performance Comparison by Market Segment



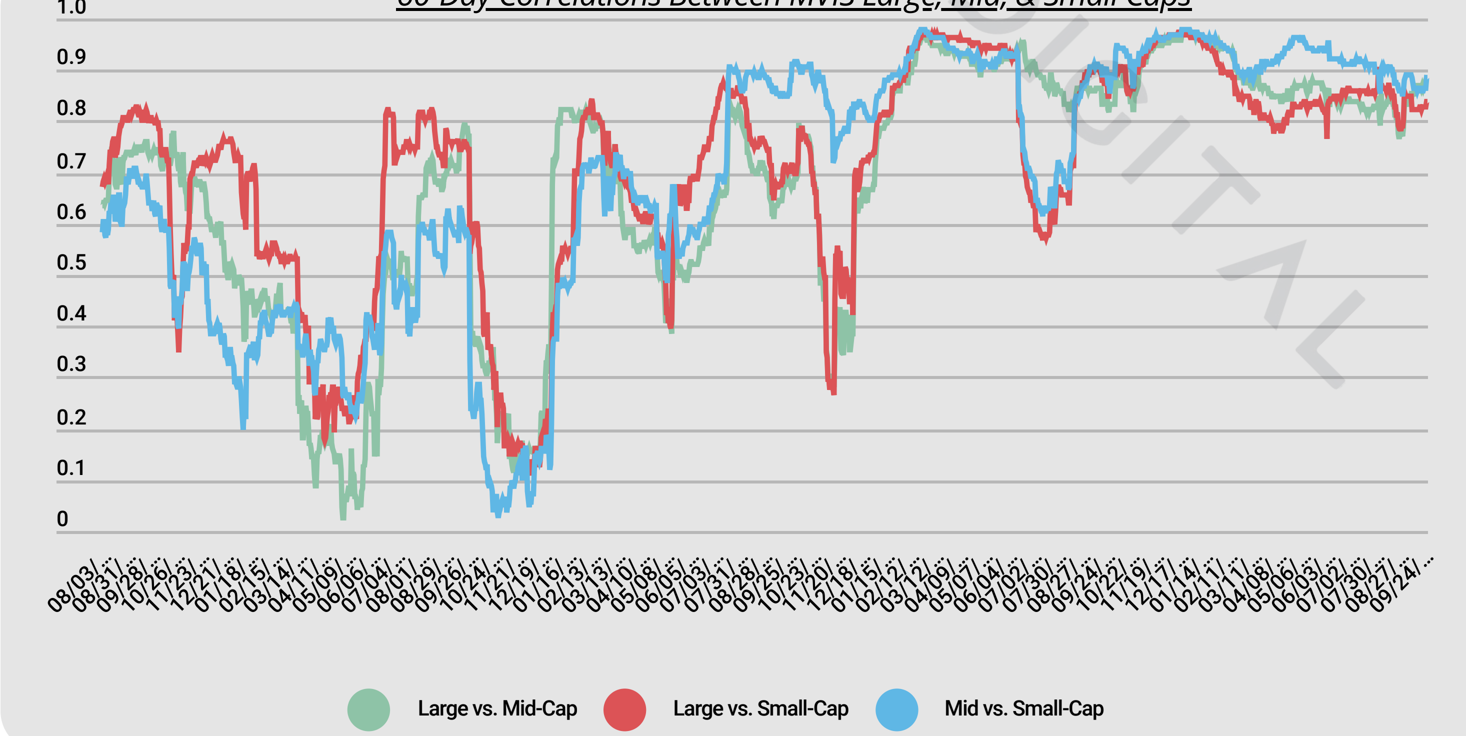
**See Source link below for detail on large, mid, and small-cap index constituents.*

Intra-Market Correlations

30-Day Correlations Between Top Crypto Assets

	ADA	BCH	BNB	BTC	DASH	EOS	ETC	ETH	LTC	MIOTA	MKR	NEO	TRX	XEM	XLM	XMR	XRP	ZEC
ADA	1.00	0.70	0.58	0.70	0.70	0.79	0.67	0.83	0.80	0.76	0.59	0.77	0.77	0.66	0.79	0.71	0.76	0.72
BCH	0.70	1.00	0.45	0.71	0.63	0.69	0.58	0.73	0.72	0.60	0.50	0.62	0.56	0.50	0.57	0.60	0.60	0.55
BNB	0.58	0.45	1.00	0.52	0.55	0.55	0.50	0.61	0.59	0.54	0.47	0.56	0.53	0.43	0.51	0.56	0.48	0.55
BTC	0.70	0.71	0.52	1.00	0.61	0.71	0.62	0.81	0.76	0.62	0.62	0.70	0.59	0.48	0.60	0.66	0.59	0.62
DASH	0.70	0.63	0.55	0.61	1.00	0.65	0.58	0.70	0.65	0.68	0.48	0.67	0.60	0.58	0.62	0.73	0.60	0.70
EOS	0.79	0.69	0.55	0.71	0.65	1.00	0.65	0.81	0.80	0.72	0.57	0.74	0.68	0.58	0.67	0.66	0.71	0.62
ETC	0.67	0.58	0.50	0.62	0.58	0.65	1.00	0.72	0.65	0.63	0.52	0.60	0.58	0.54	0.59	0.60	0.59	0.59
ETH	0.83	0.73	0.61	0.81	0.70	0.81	0.72	1.00	0.83	0.75	0.68	0.77	0.72	0.61	0.70	0.71	0.75	0.70
LTC	0.80	0.72	0.59	0.76	0.65	0.80	0.65	0.83	1.00	0.68	0.59	0.72	0.64	0.55	0.67	0.68	0.67	0.65
MIOTA	0.76	0.60	0.54	0.62	0.68	0.72	0.63	0.75	0.68	1.00	0.54	0.73	0.65	0.59	0.67	0.64	0.70	0.64
MKR	0.59	0.50	0.47	0.62	0.48	0.57	0.52	0.68	0.59	0.54	1.00	0.58	0.50	0.41	0.48	0.51	0.50	0.48
NEO	0.77	0.62	0.56	0.70	0.67	0.74	0.60	0.77	0.72	0.73	0.58	1.00	0.72	0.59	0.66	0.66	0.68	0.63
TRX	0.77	0.56	0.53	0.59	0.60	0.68	0.58	0.72	0.64	0.65	0.50	0.72	1.00	0.55	0.64	0.61	0.65	0.62
XEM	0.66	0.50	0.43	0.48	0.58	0.58	0.54	0.61	0.55	0.59	0.41	0.59	0.55	1.00	0.63	0.59	0.59	0.58
XLM	0.79	0.57	0.51	0.60	0.62	0.67	0.59	0.70	0.67	0.67	0.48	0.66	0.64	0.63	1.00	0.66	0.72	0.65
XMR	0.71	0.60	0.56	0.66	0.73	0.66	0.60	0.71	0.68	0.64	0.51	0.66	0.61	0.59	0.66	1.00	0.63	0.68
XRP	0.76	0.60	0.48	0.59	0.60	0.71	0.59	0.75	0.67	0.70	0.50	0.68	0.65	0.59	0.72	0.63	1.00	0.59
ZEC	0.72	0.55	0.55	0.62	0.70	0.62	0.59	0.70	0.65	0.64	0.48	0.63	0.62	0.58	0.65	0.68	0.59	1.00

60-Day Correlations Between MVIS Large, Mid, & Small Caps



Sources: Digital Assets Data, MVIS CryptoCompare Digital Assets Indices

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