DELPHI DIGITAL

Weekly Market Commentary - December 5, 2019

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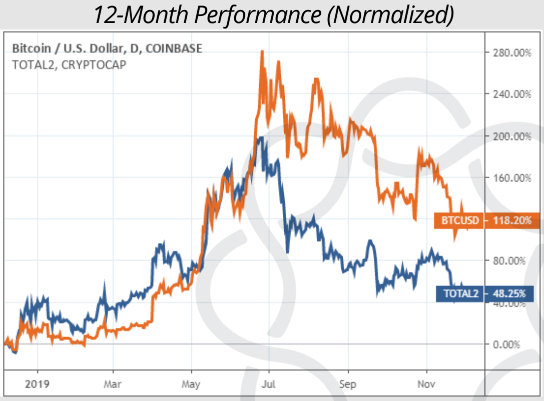
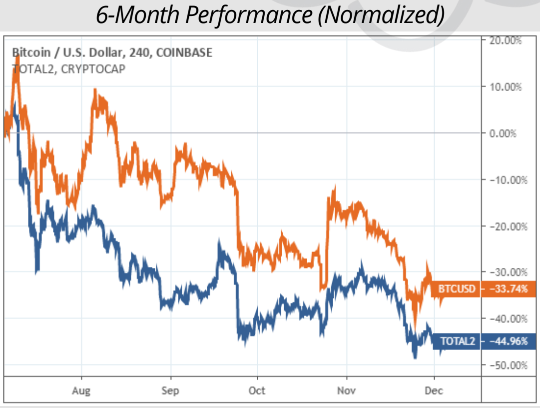
Total Public Market Value (ex-BTC)

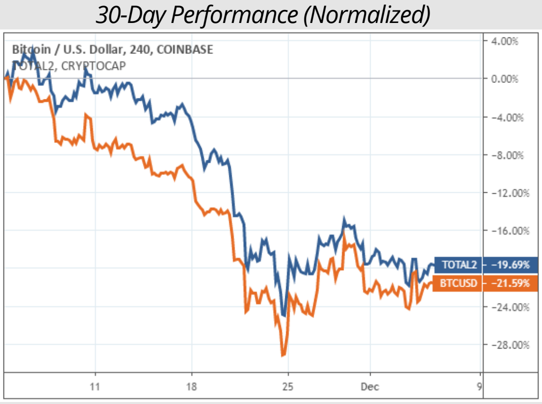
12-Month Performance (Normalized)



6-Month Performance (Normalized)



30-Day Performance (Normalized)



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Bitcoin Fades Alongside Key Macro Drivers

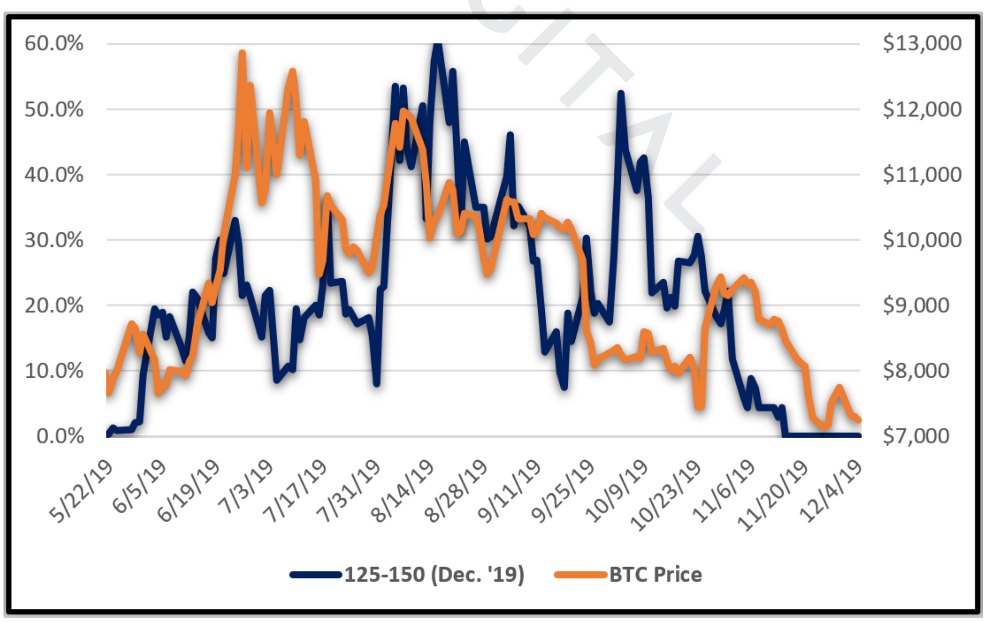
- Bitcoin has struggled to gain any momentum recently as renewed enthusiasm for the world's largest crypto asset appears to be waning. We can draw some parallels between the latest BTC drawdown and the pullback in gold as both face similar headwinds, notably a back up in real yields amid a modest improvement in investor optimism.

- Heightened concerns over the "synchronized global slowdown" - largely driven by the fallout from intensifying trade disputes – and the swift rise in negative yielding debt were two pivotal drivers behind the run up in gold this summer. Fast forward to today and both of those catalysts have faded, at least somewhat, despite lingering uncertainty and asymmetric downside risk in several major asset classes.

- Financial markets seem woefully under-prepared for a scenario in which the U.S. levies additional tariffs on +$150 billion of Chinese goods, which are set to take effect at the end of next week barring some kind of trade agreement. Growing optimism towards a "phase one" trade deal has helped lift equities back within striking distance of all-time highs, setting us up for a potential repeat of last year's market tantrum to close out an otherwise stellar 2019 for most risk assets.

Chart of the Week

Bitcoin (Orange) vs. Probability of Fed Rate Cut (Dec.'19)



Sources: CME, Coinbase, CryptoCap, TradingView

Bitcoin-Gold Correlation Peaks

Bitcoin has struggled to gain any momentum recently as enthusiasm for the world's largest crypto asset continues to wane, at least according to various proxies like worldwide Google search trends or the lack of "should I buy bitcoin" conversations we had over Thanksgiving. In fact, BTC's timely drop to $6,500 last week prompted more "you still doing that bitcoin thing" chirps than anticipated. But it makes sense; interest in bitcoin and crypto at large is extremely cyclical, rising when prices skyrocket and retreating into the shadows when things go the other way. Either way, we're all still here and we're not going anywhere.

BTCUSD vs. 14-Day RSI

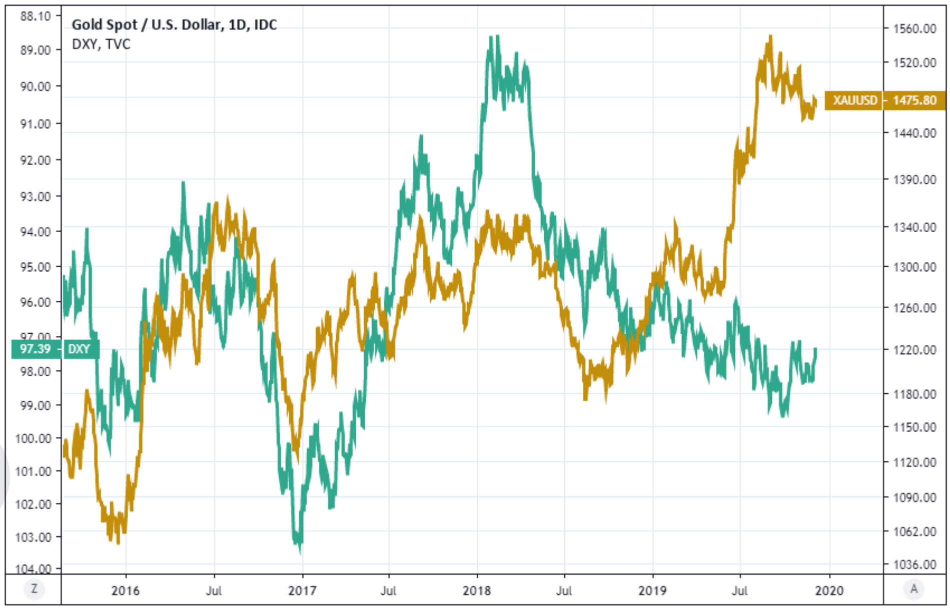
We noted BTC dipped into oversold territory on its 14-day RSI towards the end of November - **which saw the worst monthly decline since last November's massacre** – but remained cautious in the short run given its disappointing price action following a similar occurrence at the end of September. Bitcoin's struggles draw some interesting parallels to gold's recent pullback given the **52-week correlation between the two is just off its highest point on record.**

52-Week Correlation - Bitcoin vs. Gold

Gold Pulls Back, Real Yields Back Up

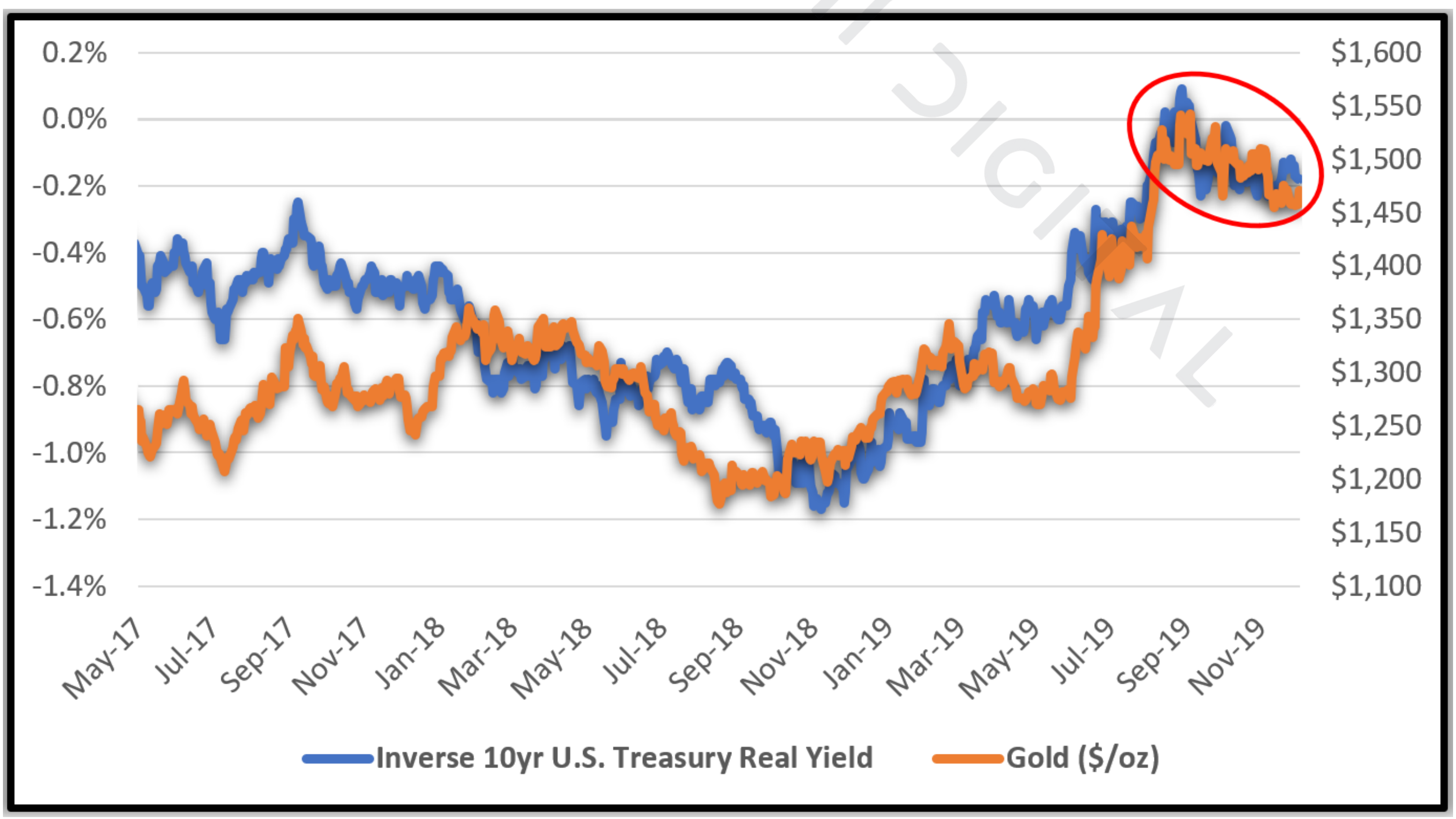
Growing concerns over the "synchronized global slowdown" - largely driven by the fallout from intensifying trade disputes – and the swift rise in negative yielding debt securities were two pivotal drivers behind the run up in gold (and other safe haven assets) this summer. Fast forward to today and **both of those catalysts have faded** as better-than-expected economic measures and a back up in global bond yields alleviated some of the worry the global economy was headed for recession.

Gold Price vs. Inverted Dollar Index (Green)



An important distinction is that **both nominal and real yields have ticked higher,** the latter of which is critical to the performance of assets like gold and bitcoin. The pickup in real yields indicates growing optimism over future growth expectations, which lends support to the notion the economic outlook is improving, albeit modestly, compared to just a few months ago.

U.S. Real Yields (Inverse) vs. Gold Price



Sources: TradingView, ICE, U.S. Treasury Department

Safety Trade Needs More Volatility

The flight-to-safety trade that launched bonds and gold a few months ago has struggled amid an improving backdrop for risk assets, **though tail risks remain elevated.** For starters, President Trump decided to take aim at a host of new trade targets this week, notably France, Brazil, and Argentina. Despite the latest progress on current trade talks, Trump also rattled markets by claiming his **willingness to wait until after the 2020 presidential election before striking a deal with China.** It's yet to be seen whether this is just another tactic to gain some last-minute leverage before the December 15th deadline (when tariffs on another +$150 billion of Chinese goods take effect) or whether he actually means what he says. However, if the latter winds up being true, **markets seem woefully under-prepared for such a scenario given growing optimism towards a "phase one" agreement, which could set us up for a repeat of last year's market tantrum to close out an otherwise stellar 2019.**

Either way, there's little doubt at this point the ongoing trade war between the world's two largest economies is harming the global economy. Within its borders, U.S. manufacturing has begun to cast a worrying light on the adverse effects of ongoing trade disputes as the sector sheds jobs amid a "manufacturing recession". The ripple effects are also being felt far outside the domestic economy as **countries dependent on free-flowing global trade show signs of weakening economic activity,** most notably manufacturing powerhouses like Germany. The euro area in general is heavily exposed to such trade spats given its massive exposure to both nations, so it seems no one is safe from the potential fallout. Both the Fed and PBOC have taken efforts to ease financial conditions amid the headwinds caused by tariffs, but will that be enough? Only time will tell, but one thing's for certain: **a spike in equity market volatility would fuel renewed demand for safe haven assets (bonds, gold, etc.) and any further deterioration in trade talks could be just the spark.**

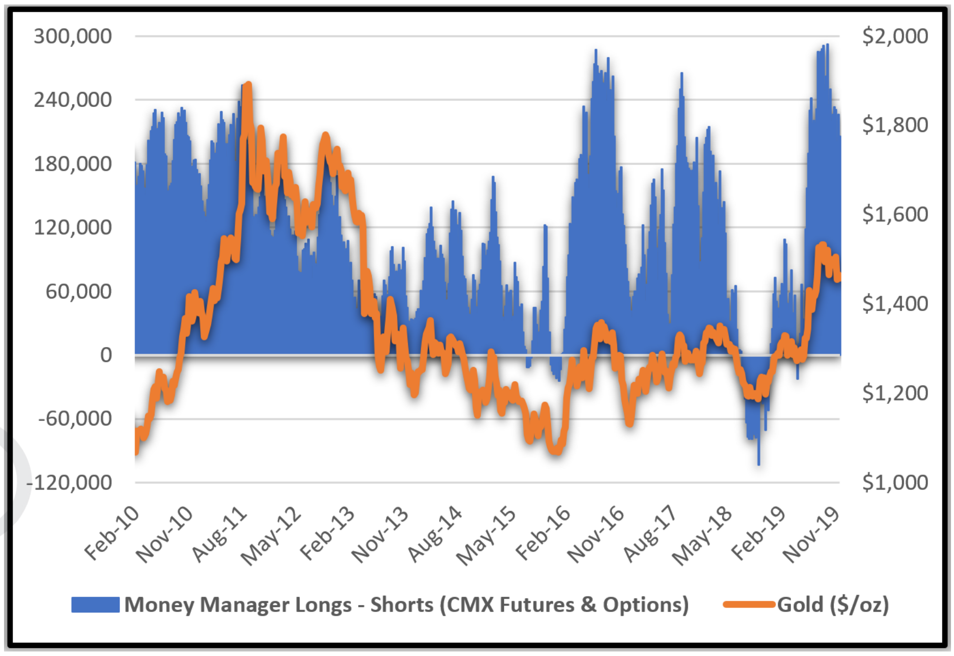
Gold & Long-Dated Treasuries / S&P 500 vs. VIX Index

Sources: Cboe, BlackRock, SPDR, TradingView

Speculators Still Long Gold

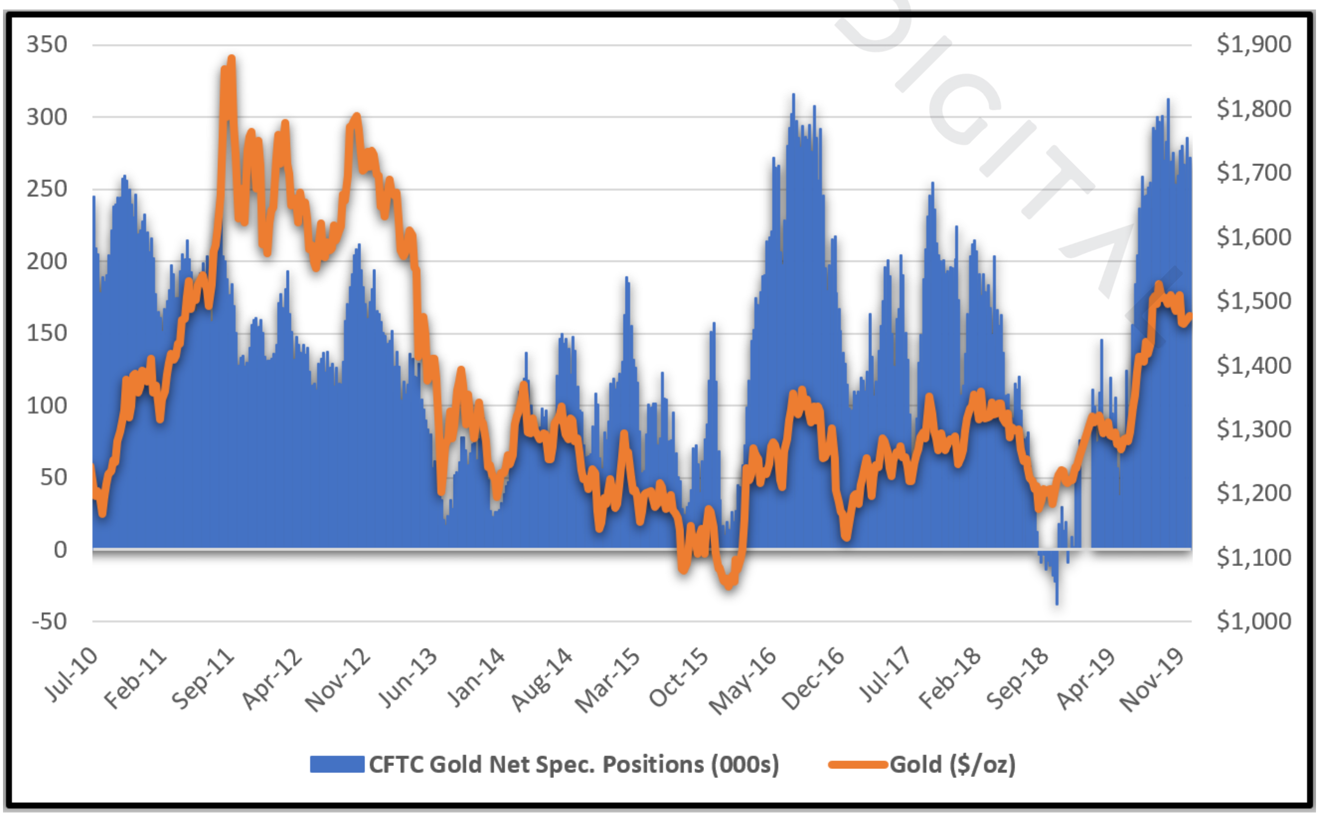
Large speculators turned very bearish on gold in the latter half of 2018 as tighter monetary policy from major central banks, most notably the Fed, pushed up interest rates, raising the opportunity cost of holding non-income producing assets like gold. A strong rebound in the dollar following its dismal 2017 also contributed to the weakness in the yellow precious metal as U.S. central bankers appeared deadest on continuing their ongoing rate hiking cycle.

Money Managers Net Gold Positioning (CMX)



Gold has gained roughly 25% since last August when net positioning for large speculators signaled extreme pessimism among investors. Conversely, gold's breakout this year brought with it renewed optimism for precious metals, which in turn has pushed net speculative positioning to the opposite extreme. Large speculators have trimmed some of their longs the last couple months, but the considerable net long positioning still has a lot of room underneath it.

Net Speculative Gold Positioning vs. Gold Price

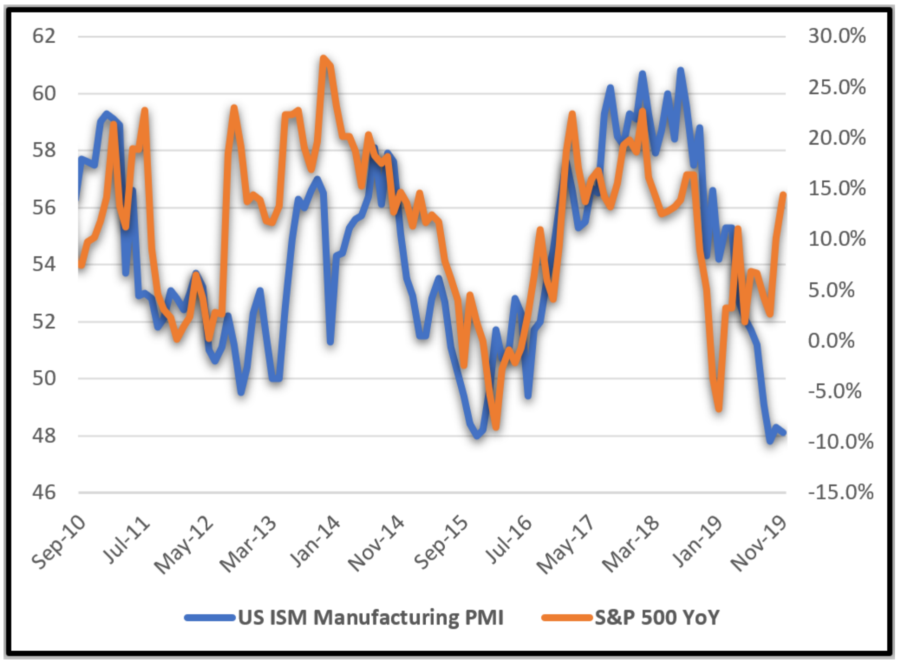


Sources: CFTC, COMEX

U.S. Small-Caps Breakout

Large-cap equities in the U.S. broke back out to new all-time highs in October, but small-cap stocks have lagged their larger peers for much of the last 18 months, failing to break out of a relatively sideways trading range dating back more than a year. That changed this week as the **Russell 2000 closed at its highest level since Oct. 2018** on the back of improving sentiment and easing U.S.-China trade tensions. Small-caps are usually viewed as higher risk because, by definition, they are much smaller, less established companies.

U.S. Manufacturing PMI & S&P 500 Diverge



Strength in small-caps offers some reassurance for the recent breakout in large-cap names. The run up has also pushed the Russell 2000's **50-day moving average above its 200-day equivalent -** a bullish technical signal known as a **"golden cross"**. Both averages are trending higher following the index's price breakout, indicating further strength may be in store for the lagging size segment barring a drastic "risk-off" move.

Russell 2000 vs. 50 & 200-Day Moving Averages

Sources: ISM, FTSE Russell, TradingView

Crypto Asset Movers & Shakers

After a disheartening November, the crypto market did little this week to turn a new leaf. Most crypto assets continued to bleed, led by Chinese associated names like TRX and NEO. Litecoin, now four months out from its August halving, was among the worst performers this week, in part fueled by headlines surrounding squeezed margins for operators still mining new blocks given LTC's 2H 2019 price collapse. **Many large crypto assets lost 3-6% this week, which sadly may be a slight relief given the market's painful, yet ongoing, drawdown.**

It's funny how quickly situations can change. For instance, **at the end of Q2 it was difficult to find a crypto asset that wasn't boasting at least a slightly positive return on the year.** Fast forward to today and the opposite statement seems more appropriate as this year shapes up to be one of notable dispersion.

Top Crypto Asset Returns

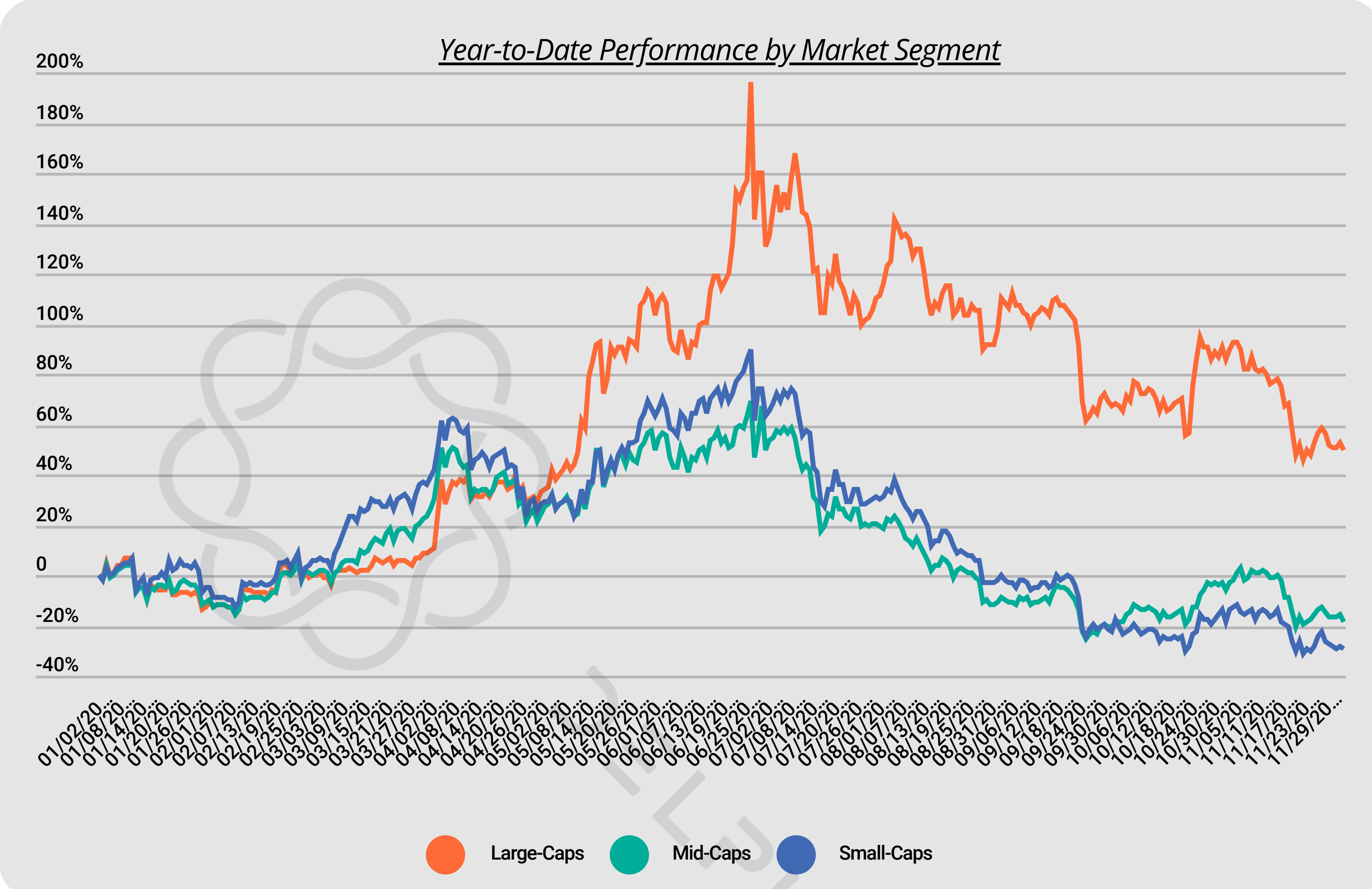
	7D	30D	90D	YTD
DASH	1.48%	-30.30%	-36.44%	-37.00%
XEM	0.08%	-14.57%	-24.80%	-47.29%
EOS	-1.57%	-23.42%	-18.99%	1.34%
XMR	-2.84%	-15.05%	-29.53%	10.82%
ADA	-3.39%	-13.44%	-15.44%	-9.91%
XRP	-3.48%	-27.98%	-15.71%	-41.25%
ETH	-4.28%	-21.45%	-15.72%	8.34%
MKR	-4.54%	-22.51%	11.51%	13.17%
ZEC	-4.56%	-28.80%	-39.88%	-54.66%
BTC	-4.65%	-23.62%	-31.67%	92.91%
BNB	-4.78%	-26.05%	-32.45%	162.08%
ETC	-4.82%	-24.27%	-46.39%	-25.85%
MIOTA	-4.97%	-27.32%	-17.40%	-42.09%
BCH	-5.21%	-28.53%	-28.96%	28.84%
XLM	-5.78%	-30.62%	-8.50%	-53.69%
LTC	-5.90%	-26.88%	-31.07%	45.98%
NEO	-7.82%	-23.94%	-3.22%	4.59%
TRX	-10.32%	-27.38%	-3.50%	-33.95%

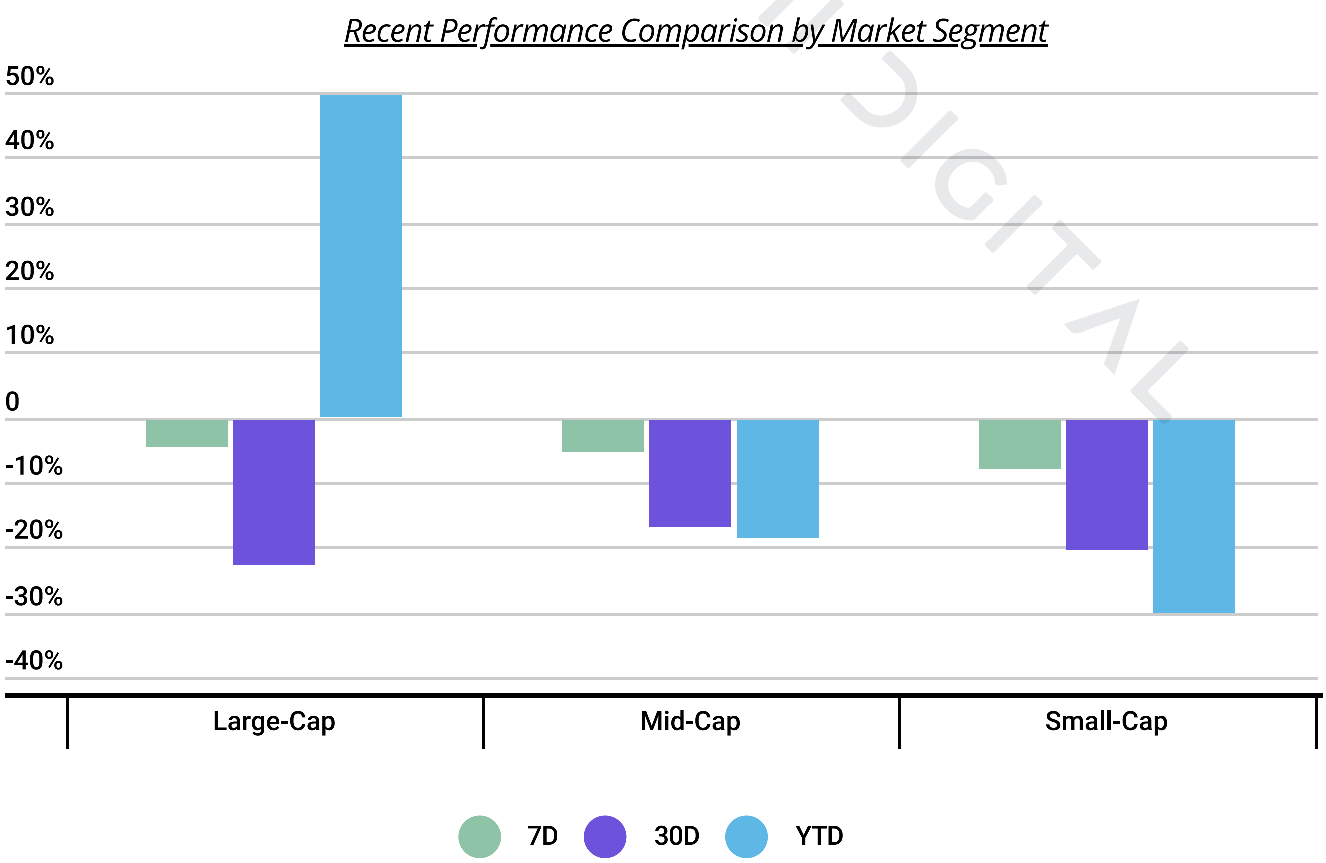
Data as of 12/4/19

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 Steady Following September Sell-Off





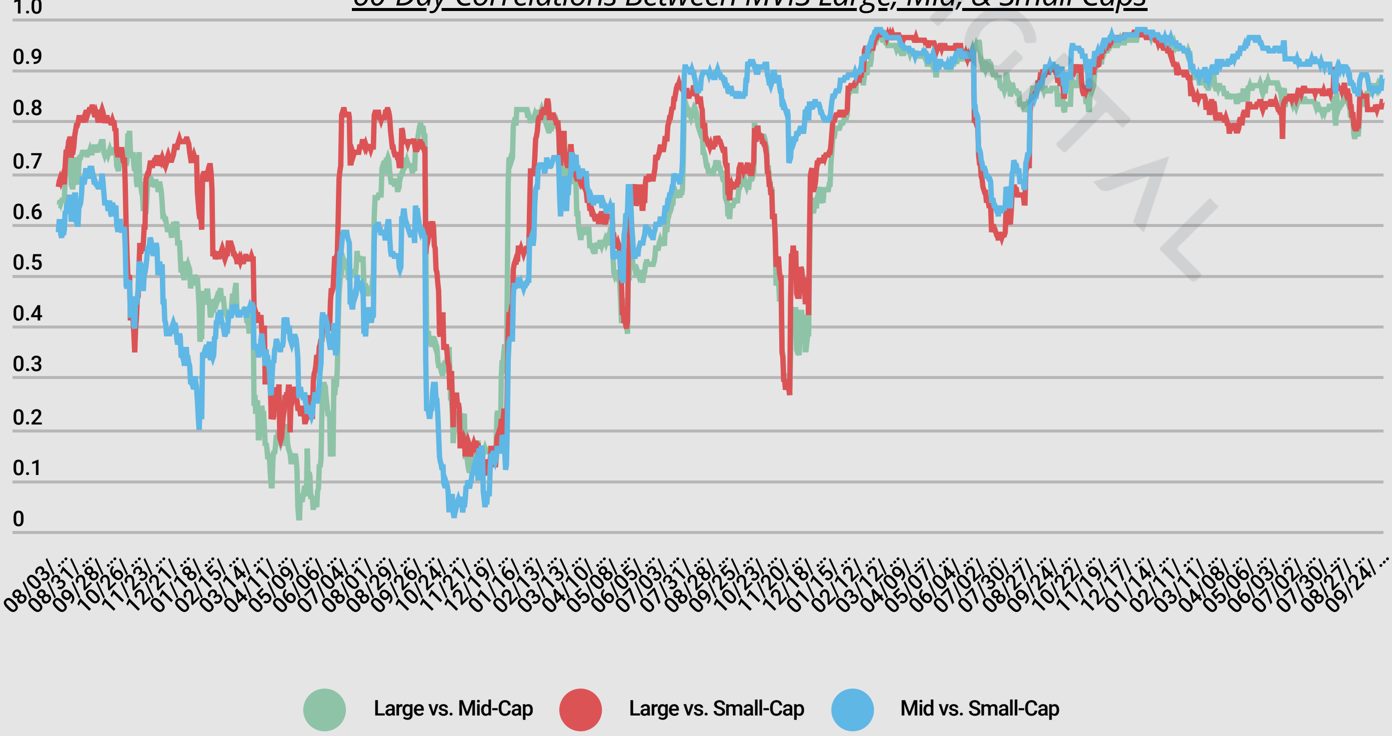
**See Source link below for detail on large, mid, and small-cap index constituents.*

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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