

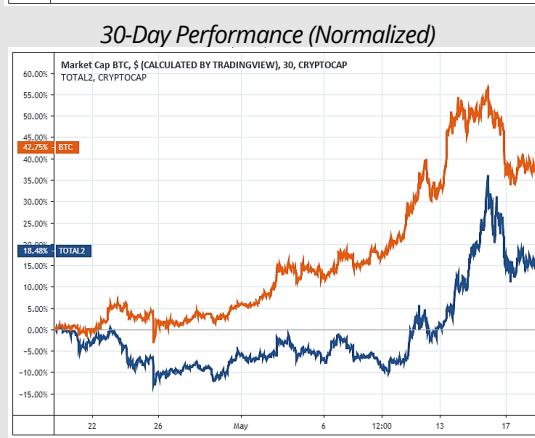
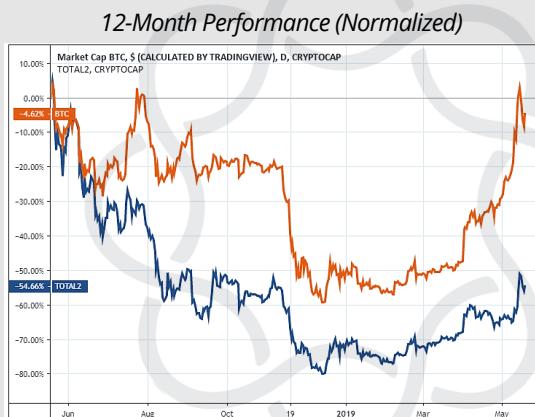
DELPHI DIGITAL

Weekly Market Commentary - May 18, 2019



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Total Public Market Value (ex-BTC)



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Bitcoin Thrives Amid Trade Tensions & Equity Sell-Off

- Tensions between the United States and China escalated this week, throwing a bit of cold water on the recent rally in risk assets. Bitcoin, however, posted double digit gains and is on pace for its best month since April 2018.
- Global investors see trade war as the largest potential tail risk, according to Bank of America's monthly fund manager survey. The risk of serious fallout from additional tariffs has already driven many investors away from riskier assets, especially those in China. Further trade disputes may continue to support bitcoin's recent run up as the demand for less cyclically-sensitive assets grows.
- The reversal in BTC's recent price action relative to conventional assets like gold is certainly noteworthy, but it's important to monitor exogenous factors like equity market volatility given bitcoin's historical weakness surrounding a spike in the VIX Index.

Chart of the Week

BTC vs. 50-Week Moving Average (Top) & 14-Week RSI (Bottom)



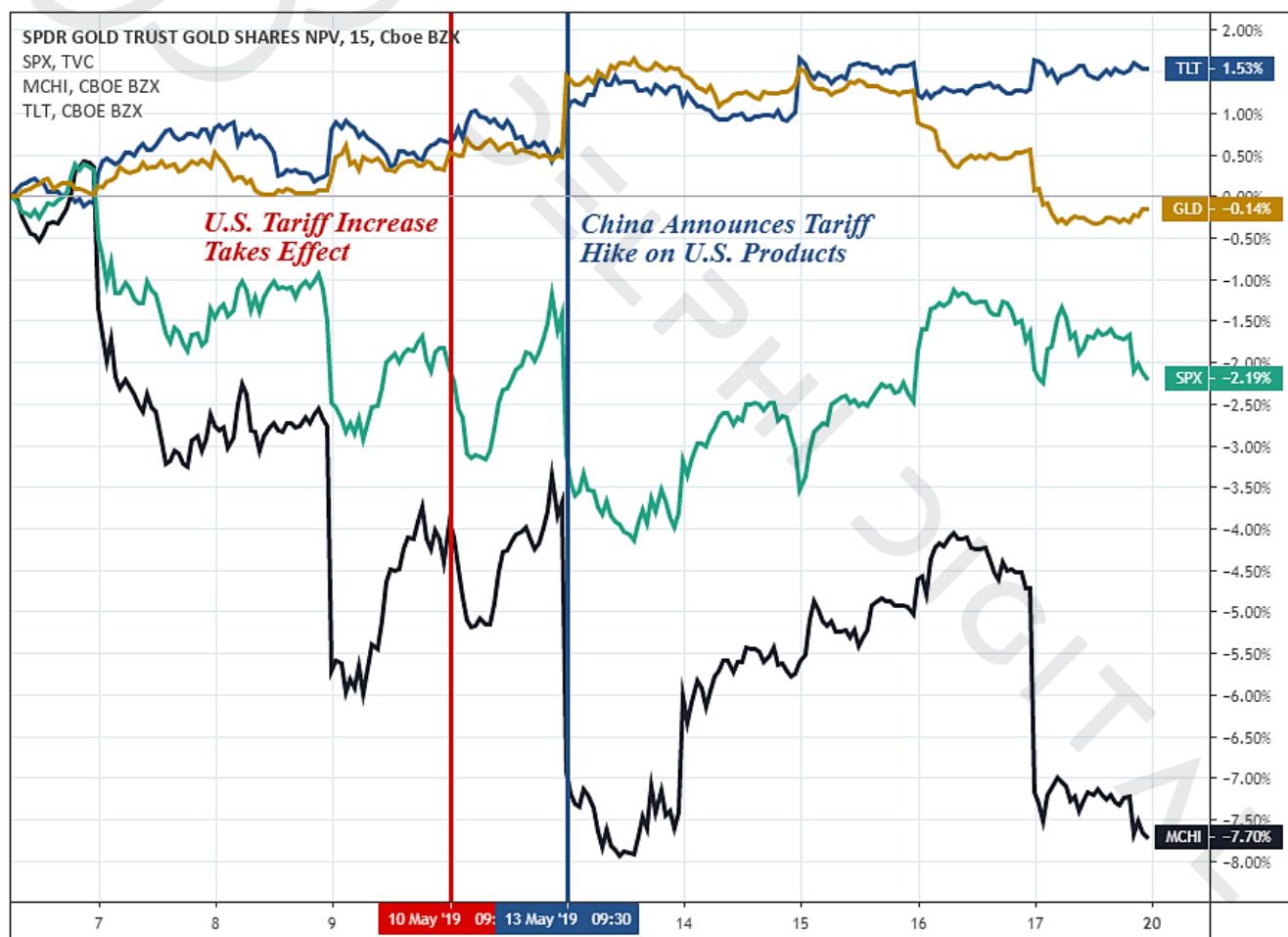


Escalating Trade Tensions Throw Wrench in Risk-On Trade

Tensions between the United States and China escalated to new levels this week, throwing cold water on the recent rally in risk assets. President Trump threw more fuel on the trade war fire last Friday (May 10th) by increasing tariffs on \$200 billion of Chinese goods to 25% from 10%. The world's second largest economy wasted little time, striking back with tariffs of its own on \$60 billion worth of U.S. goods (effective June 1st). The move had some notable consequences for investors as both Chinese equities and their U.S. peers dropped nearly 4% and 2.5%, respectively, on Monday, and have yet to recoup their losses.

The growing uncertainty around these "tit-for-tat" policies has pushed many investors into safe haven assets. Yields on U.S. 10-Year Treasury bonds fell to 2.36%, just a couple basis points above their 2019 low (set back in March), currently hovering near their lowest level since December 2017. Likewise, gold rose from \$1,285/oz to over \$1,300 on Monday following China's announced retaliation as stocks suffered substantial declines.

Select Conventional Asset Class Returns Amid Tariff Announcements



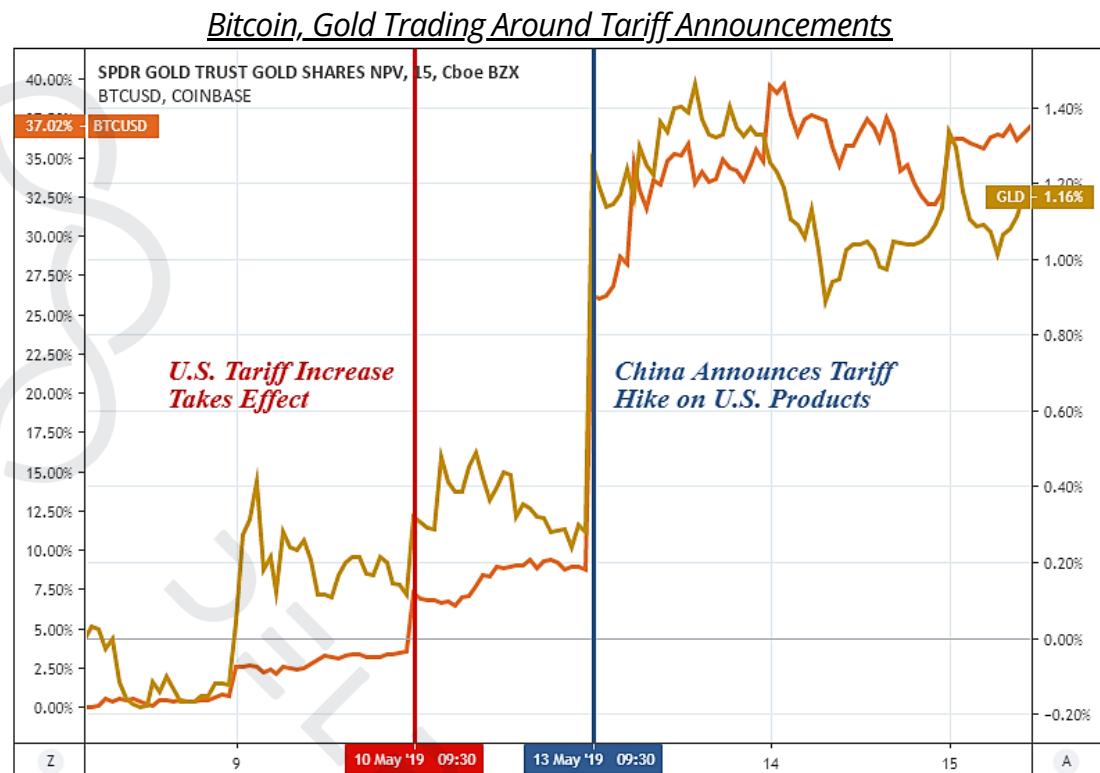
Ticker	Name	Price Change (Since May 10th)	Price Change (Month-to-Date)	Price Change (Year-to-Date)
BTC	Bitcoin	18.4%	36.6%	97.0%
SPX	S&P 500	0.3%	-2.2%	15.1%
GLD	SPDR Gold Trust	-0.5%	-0.5%	-0.6%
MCHI	iShares MSCI China ETF	-3.1%	-8.9%	10.0%
TLT	iShares 20+ Year Treasury Bond ETF	0.9%	1.9%	3.7%



Bitcoin Thrives Despite "Risk-Off" Sentiment

Bitcoin is holding strong despite the broader sell-off in conventional risk assets, a notable change from prior periods of heightened market volatility. It traded much more in line with physical gold around last week's events than riskier asset classes, evident in BTC's +12% rise Monday.

There are several drivers for the most recent run up in BTC, with rising tensions between the U.S. and China serving as one of the key catalysts. Capital flight is a concern China takes very seriously, especially as investors and individuals seek out alternative places to store their wealth as the tail risk from trade disputes continues to grow.



This could provide further support for bitcoin as people seek out assets that are less sensitive to a fallout if the situation worsens. The Chinese yuan has weakened nearly 3.5% against the U.S. dollar over the last month, falling nearly 2% since May 10th alone. Interestingly, BTC and Chinese 10-year government bonds have moved inversely with one another the last few years, but given the concerns over trade, have moved higher together the last couple weeks.

Bitcoin (Orange) vs. USDCNY (Blue)



Bitcoin vs. China 10YR Gov't Bond Yield (Green)

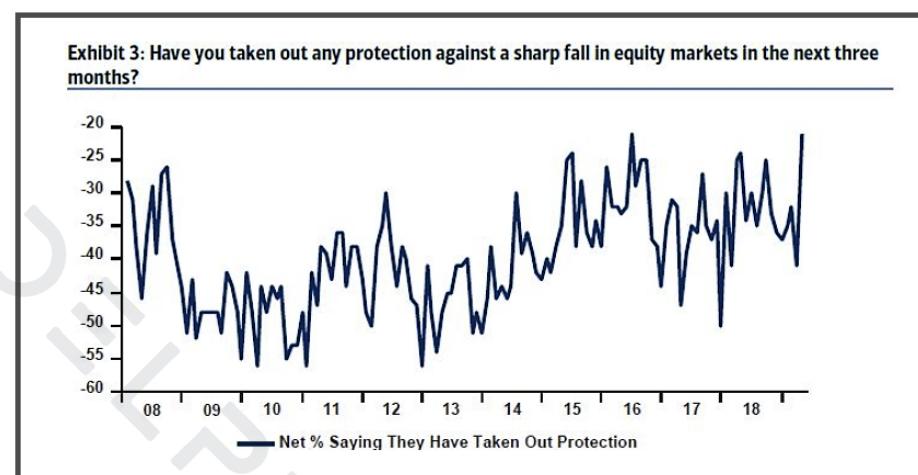
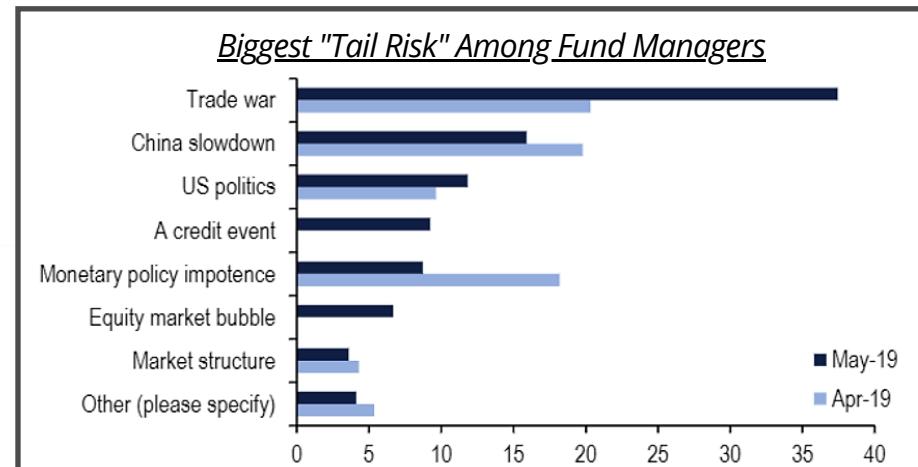




Trade War Top of Mind for Global Investors

All of this geopolitical uncertainty has resulted in increased pessimism towards risk assets (like equities) among global fund managers. Trade war was cited as the biggest tail risk among these investors (37%) in Bank of America's May Global Fund Manager Survey released earlier this week, followed by a slowdown in China (16%) and U.S. politics (12%). Even more telling is the spike in participants who said they secured downside protection against a sharp decline in the equity market over the next three months (34%), marking the highest level in the history of the survey.

Investors are "well-hedged but not positioned for a breakdown in trade talks", according to BAML's chief investment strategist Michael Hartnett.

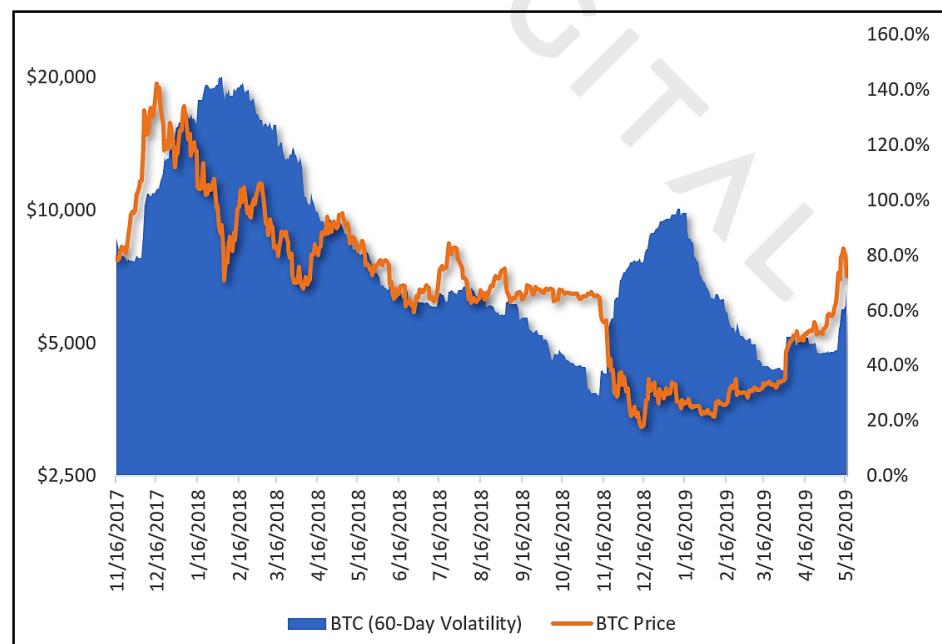


*Source: BofA Merrill Lynch Global Fund Manager Survey

If the perception of trade war risk continues to rise, it could provide support for bitcoin's recent advance. Market participants appear to be waking up to the benefits of a non-sovereign, censorship-resistant digital asset that provides an alternative to traditional safe havens potentially affected by political unrest.

It's important to keep in mind how volatile this nascent asset class can be, which has returned in recent weeks. Rising geopolitical tensions could drive more demand for BTC, but it is highly unlikely all the capital seeking safety will stay in bitcoin given its volatile nature. Bitcoin is also being used to purchase stablecoins (USDT, etc.) as investors' preference for the reserve currency increases.

Bitcoin Price & 60-Day Realized Volatility

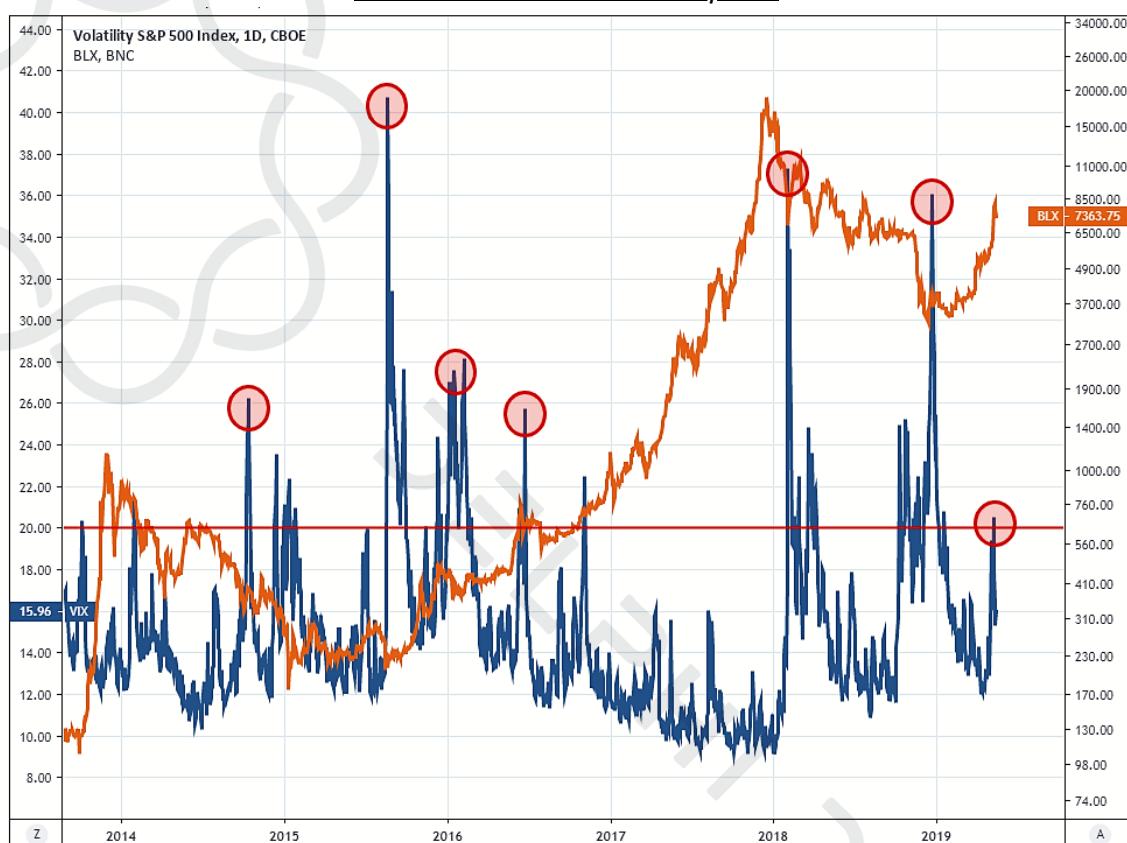




Keep One Eye on Market Volatility

While market uncertainty can certainly help boost the attractiveness of bitcoin, we continue to monitor expectations for equity market volatility given BTC's historically weak short-term performance following spikes in the VIX Index. Over the last five years, bitcoin has lost roughly 2.3% and 5.5%, on average, in the 30 and 60 days following a jump above 20 for the VIX, posting a gain roughly 40% of the time. The median performance shows similar results in the 32 occurrences.

Bitcoin Price vs. VIX Index Spikes



Expectations for heightened volatility grew towards the end of 2018 as the VIX Index rose swiftly to 25 following a relatively calm 6-9 months where the equity market slowly marched higher. The pick up in the VIX occurred about a month before bitcoin's November sell-off, which also coincided with a correction in many riskier asset classes. It's notable a sizable portion of the price weakness occurs in the two weeks immediately following a VIX spike, which closed above 20 on May 13th for the first time since January.

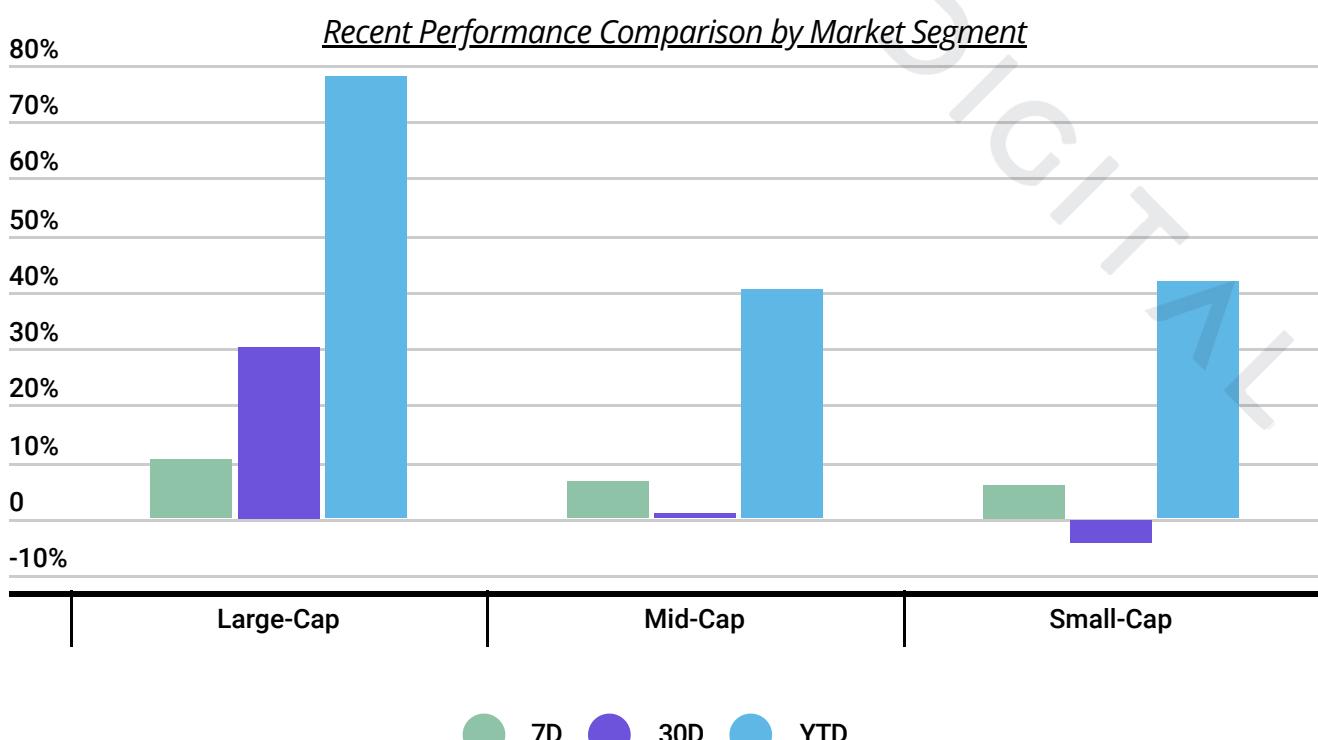
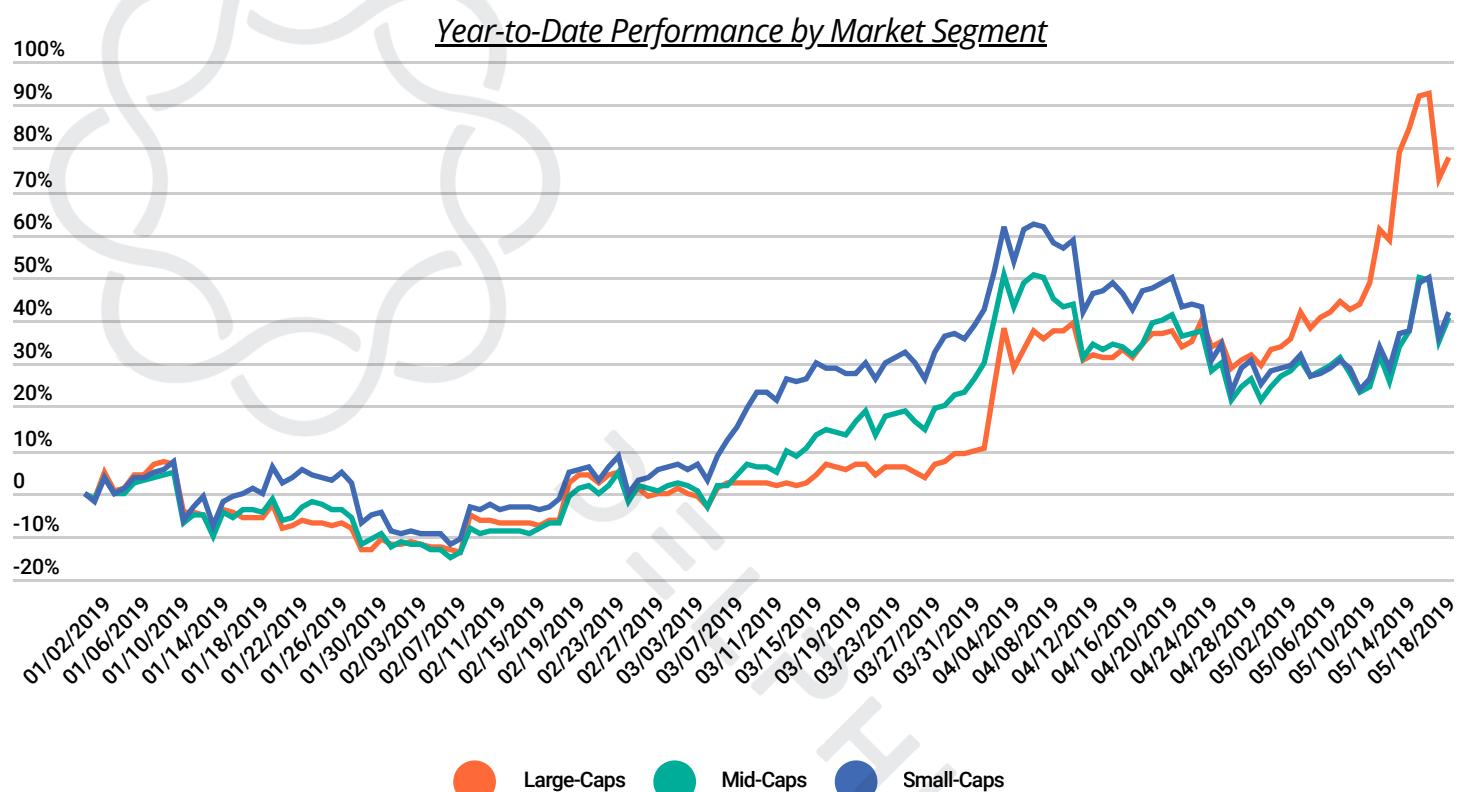
Bitcoin Performance Post-VIX > 20

Post-VIX > 20 (Last 5yrs)	Fwd 14-Day	Fwd 30-Day	Fwd 60-Day
Median	-2.8%	-1.3%	-4.9%
Average	-1.6%	-2.3%	-5.5%
Max	61.2%	43.1%	48.5%
Min	-40.6%	-45.3%	-44.2%
Batting Avg. (% Positive)	40.6%	43.8%	37.5%



Large-Cap Outperformance Widens

The gap between large-cap crypto assets and their smaller valued peers continued to widen this week, according to the MVIS CryptoCompare Digital Asset 100 Index. Bitcoin added another week of double digital gains, though it lagged some of its large-cap peers after several weeks of dominance. Many alternative crypto assets saw sizable gains this week, especially larger peers, which contributed to the slight reversal higher in intra-market correlations.



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



Crypto Asset Movers & Shakers

Bitcoin added another week of double digital gains, though it lagged many of its large-cap peers as they played a bit of catch up to the crypto behemoth's recent outperformance. ETH and XLM found themselves among the top performers despite a nearly two-hour outage on Stellar's network took place this week due to a considerable amount of nodes went offline.

Many other large crypto assets gained more than 20% this week, pushing a handful into the "2x return" club year-to-date. BSV barely budged week-over-week relative to its peers, and is now one of the only large crypto assets with a negative return this year.

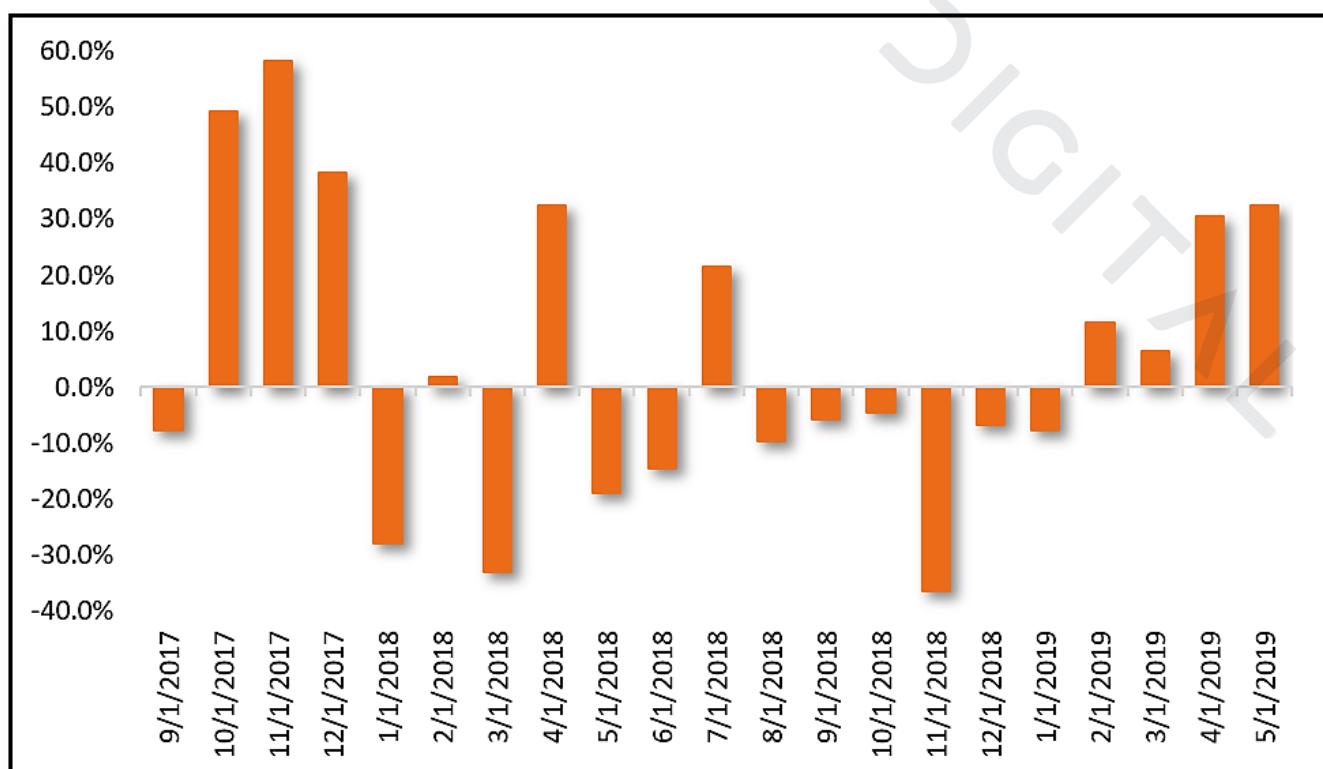
Bitcoin is on pace for its best monthly return since April 2018 and its fourth straight month of positive performance.

Top Crypto Asset Returns				
Ticker	7D	30D	90D	YTD
NEM	78.0%	41.7%	118.4%	42.2%
ETH	40.8%	46.0%	97.8%	82.8%
XLM	36.9%	8.5%	61.4%	12.2%
IOTA	34.3%	27.0%	43.1%	10.3%
ADA	31.3%	0.2%	102.9%	102.8%
BNB	31.0%	31.0%	181.3%	316.9%
XRP	28.6%	15.1%	28.0%	9.5%
ETC	28.0%	15.9%	76.5%	43.0%
NEO	27.8%	1.8%	40.8%	48.9%
BCH	26.8%	17.4%	198.2%	141.5%
ZEC	26.5%	3.4%	40.6%	28.7%
EOS	24.6%	10.3%	113.5%	134.2%
DASH	22.2%	14.3%	73.1%	74.3%
XMR	20.5%	21.5%	74.8%	77.4%
MKR	20.3%	-2.9%	25.3%	39.0%
LTC	15.3%	12.2%	104.2%	192.1%
TRON	15.3%	1.7%	13.6%	44.6%
BTC	15.1%	39.8%	102.3%	96.2%
BSV	4.2%	9.0%	-3.2%	-29.0%

*Returns in USD

Data as of 05/18/19

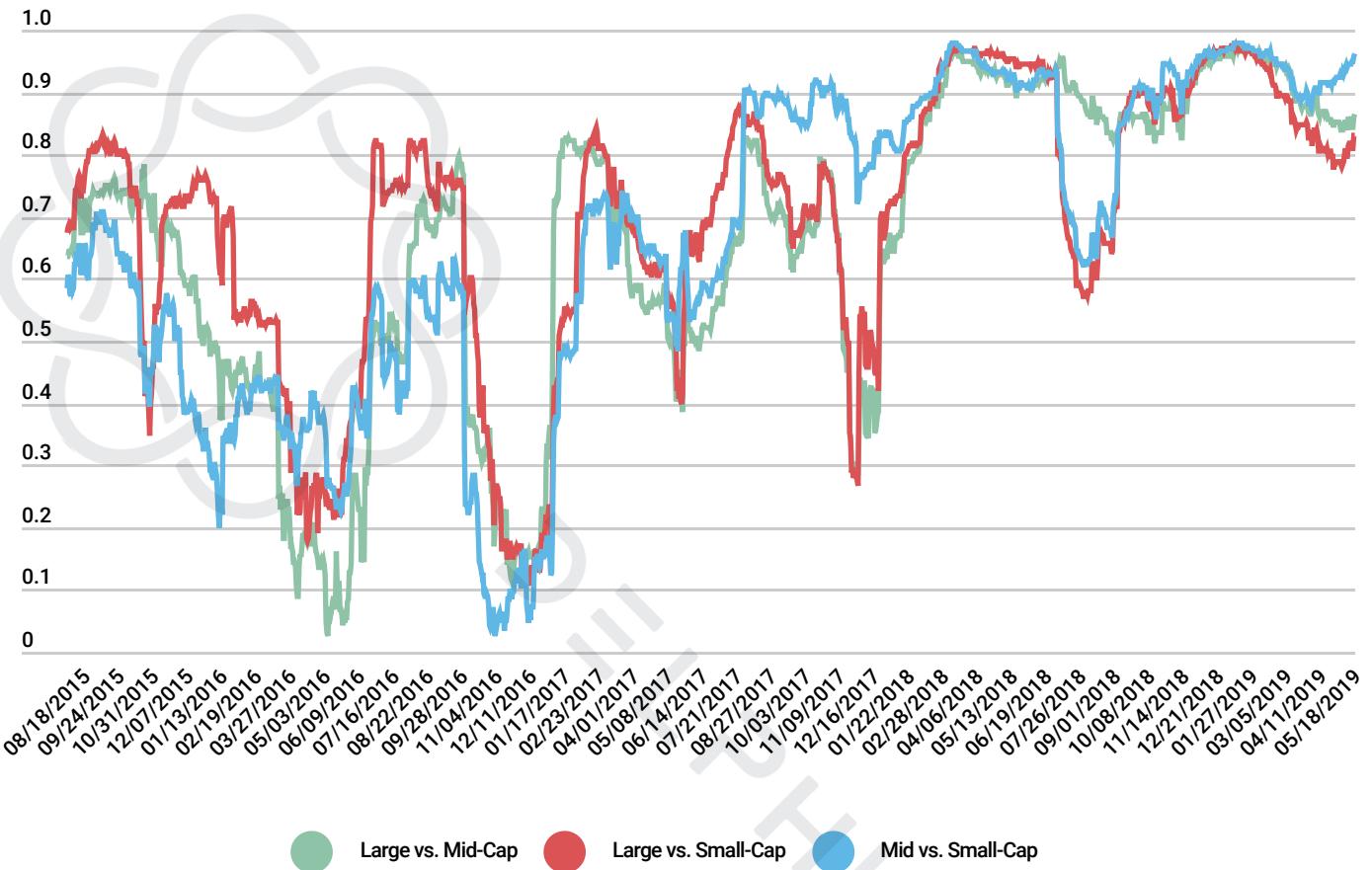
Bitcoin Monthly Returns



Appendix



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



60-Day Correlations																			
	BTC	XRP	ETH	EOS	XLM	LTC	BCH	TRON	ADA	XMR	IOTA	BNB	DASH	NEM	ETC	NEO	ZEC	BSV	MKR
BTC	1.00	0.62	0.73	0.79	0.63	0.81	0.77	0.61	0.66	0.79	0.57	0.43	0.69	0.56	0.55	0.69	0.70	0.65	0.61
XRP	0.62	1.00	0.76	0.72	0.83	0.64	0.44	0.82	0.75	0.72	0.71	0.35	0.74	0.56	0.60	0.80	0.74	0.57	0.69
ETH	0.73	0.76	1.00	0.83	0.89	0.75	0.60	0.78	0.73	0.79	0.65	0.46	0.79	0.87	0.72	0.80	0.81	0.66	0.74
EOS	0.79	0.72	0.83	1.00	0.78	0.86	0.78	0.74	0.79	0.75	0.55	0.41	0.77	0.70	0.63	0.78	0.76	0.64	0.63
XLM	0.63	0.83	0.89	0.78	1.00	0.72	0.54	0.84	0.76	0.81	0.75	0.46	0.81	0.81	0.73	0.85	0.84	0.68	0.73
LTC	0.81	0.64	0.75	0.86	0.72	1.00	0.87	0.68	0.79	0.74	0.53	0.45	0.71	0.62	0.60	0.82	0.74	0.77	0.61
BCH	0.77	0.44	0.60	0.78	0.54	0.87	1.00	0.48	0.69	0.54	0.31	0.31	0.57	0.54	0.49	0.63	0.58	0.53	0.43
TRON	0.61	0.82	0.78	0.74	0.84	0.68	0.48	1.00	0.75	0.78	0.70	0.41	0.77	0.61	0.71	0.80	0.78	0.71	0.69
ADA	0.66	0.75	0.73	0.79	0.76	0.79	0.69	0.75	1.00	0.70	0.58	0.35	0.70	0.62	0.57	0.85	0.78	0.63	0.67
XMR	0.79	0.72	0.79	0.75	0.81	0.74	0.54	0.78	0.70	1.00	0.73	0.53	0.86	0.64	0.61	0.77	0.89	0.71	0.74
IOTA	0.57	0.71	0.65	0.55	0.75	0.53	0.31	0.70	0.58	0.73	1.00	0.45	0.67	0.55	0.63	0.74	0.71	0.64	0.68
BNB	0.43	0.35	0.46	0.41	0.46	0.45	0.31	0.41	0.35	0.53	0.45	1.00	0.53	0.42	0.36	0.49	0.53	0.51	0.48
DASH	0.69	0.74	0.79	0.77	0.81	0.71	0.57	0.77	0.70	0.86	0.67	0.53	1.00	0.66	0.62	0.79	0.83	0.65	0.69
NEM	0.56	0.56	0.87	0.70	0.81	0.62	0.54	0.61	0.62	0.64	0.55	0.42	0.66	1.00	0.60	0.67	0.71	0.52	0.58
ETC	0.55	0.60	0.72	0.63	0.73	0.60	0.49	0.71	0.57	0.61	0.63	0.36	0.62	0.60	1.00	0.62	0.71	0.61	0.61
NEO	0.69	0.80	0.80	0.78	0.85	0.82	0.63	0.80	0.85	0.77	0.74	0.49	0.79	0.67	0.62	1.00	0.81	0.76	0.76
ZEC	0.70	0.74	0.81	0.76	0.84	0.74	0.58	0.78	0.78	0.89	0.71	0.53	0.83	0.71	0.71	0.81	1.00	0.69	0.71
BSV	0.65	0.57	0.66	0.64	0.68	0.77	0.53	0.71	0.63	0.71	0.64	0.51	0.65	0.52	0.61	0.76	0.69	1.00	0.63
MKR	0.61	0.69	0.74	0.63	0.73	0.61	0.43	0.69	0.67	0.74	0.68	0.48	0.69	0.58	0.61	0.76	0.71	0.63	1.00

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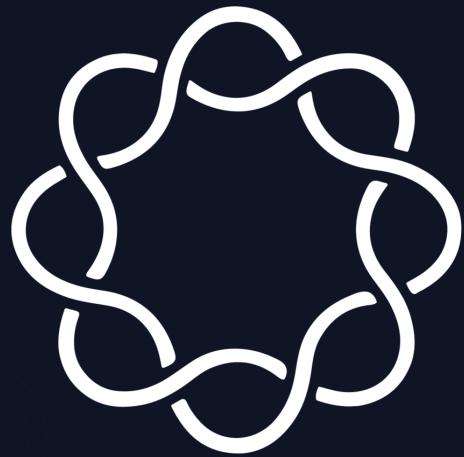
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