

DeFi Pulse Index Monthly Update

January 2021



Performance

	3-Months	January	December	November	Since Inception*	Standard Deviation**
DPI	404.1%	172.6%	10.9%	66.8%	151.8%	6.3%
BTC	140.0%	13.9%	48.0%	42.3%	210.1%	3.7%
ETH	241.3%	78.3%	20.6%	58.7%	249.9%	5.1%

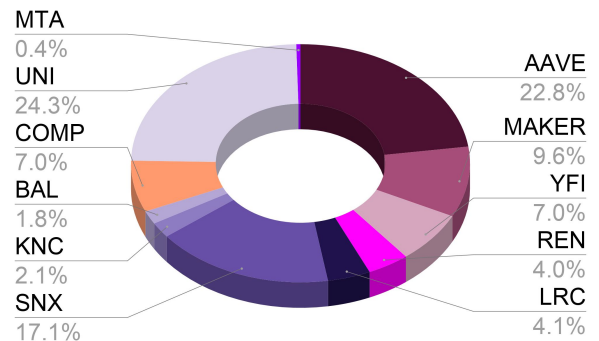
* Cumulative performance. Inception on September 14, 2020

** Standard deviation of daily returns since inception

MoM Holdings Change

Token	Jan-21	Feb-21	Change
AAVE	17.3%	22.8%	5.4%
MAKER	9.6%	9.6%	-0.1%
YFI	12.2%	7.0%	-5.2%
REN	6.5%	4.0%	-2.6%
LRC	4.3%	4.1%	-0.2%
SNX	19.5%	17.1%	-2.3%
KNC	3.1%	2.1%	-1.0%
BAL	2.7%	1.8%	-0.9%
COMP	10.3%	7.0%	-3.3%
UNI	14.5%	24.3%	9.8%
MTA	0.0%	0.4%	0.4%
Total	100%	100%	

Current Weightings



Correlation & Beta

DPI with BTC	0.42
DPI with ETH	0.67
DPI beta to BTC	0.25
DPI beta to ETH	0.55

Upside & Downside Capture

Upside capture of BTC	75.9%
Downside capture of BTC	54.6%
Upside capture of ETH	87.5%
Downside capture of ETH	90.6%

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Estimated Contribution To Performance

Token	Weight	Performance	Contribution*
AAVE	17.3%	238.9%	41.4%
MAKER	9.6%	151.8%	14.6%
YFI	12.2%	32.3%	3.9%
REN	6.5%	95.2%	6.2%
LRC	4.3%	191.6%	8.2%
SNX	19.5%	140.0%	27.3%
KNC	3.1%	61.7%	1.9%
BAL	2.7%	94.8%	2.6%
COMP	10.3%	131.2%	13.5%
UNI	14.5%	241.2%	34.9%

* Contribution measures the degree of each individual token's contribution to the performance of DPI over a period. This is an estimate. At this point in time, we are not able to account for the constant changes in the weight of the underlying tokens in the portfolio. As such, contribution is calculated based on the beginning portfolio weights post monthly rebalance, assuming they stay static during the month.

A stellar month for the projects that make up DPI saw even the smallest gainer, YFI, up over 30%. This is not unexpected, given the way the crypto market tends to behave during bull cycles. Typically Bitcoin goes first, followed by Ethereum, and finally, the smaller cap 'Altcoins' outperform both. We saw BTC reach a new all-time high at the start of January, followed two weeks later by ETH which promptly set the stage for a tremendous altcoin run going into the end of the month.

This time around though some things are certainly different. While a few of the leftover projects from 2017 have seen a recent price pump, it was not sustained. Top 10 projects like XRP and Bitcoin Cash flared and very quickly died back down. What we have seen instead might be termed 'DeFi season', where projects providing real utility and with verifiable revenue streams have seen a profound re-rating based on fundamentals.

DPI Performance Contributors

UNI: In January, Uniswap changed their Twitter handle, launched a new front-page for their website, oh and surpassed \$22b in trading volume for the month. Possibly enough to justify the 241% gain in itself, but the market also seems to be anticipating the launch of Uniswap V3. The majority of UNI's gains came through in the month's final week as the GameStop controversy highlighted the benefits of decentralised exchanges. Despite the price appreciation, UNI continues to have one of the lowest P/S ratios, according to [Token Terminal's dashboard](#).

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Since our last monthly update, Uniswap also passed their first successful governance proposal, [V0.1 of a grants program](#). However, the first round of applications doesn't close until Feb 28th, so no funding has been deployed yet. All in all, January was a relatively quiet month for the most spectacular performer in the index, which now accounts for over 31% of DPI's composition.

AAVE: Following closely behind UNI, AAVE experienced a 239% gain over the month - what a way to celebrate the protocol's first birthday. There is now over \$3.3b locked in Aave, split between V1 and V2 versions, up from \$3m just 12 months ago. In the first 4 weeks of 2021, the protocol saw earnings average around \$1.8m per week, primarily from interest on loans, with flash loan fees continuing to grow as a portion of revenue.

In terms of governance, the community voted to increase staking rewards from 400 to 550 AAVE per day to reflect the fact that slashing would be formally switched on for stakers in the safety module.

Notable Mention - MKR: Sleeping DeFi giant MakerDAO finally woke up during January, after trading fairly flat through the mini bull run in September last year. The protocol started raising stability fees for various vaults, leading to an increase in revenue. This, coupled with a spate of votes to increase debt ceilings to match demand, put Maker in a position to be earning significant income and the market appears to have caught up to that fact. Total value locked went swiftly from \$2.5b to \$5b during the month, and the MKR token price went with it, up 151.8% in the same period.