

As risk managers for Aave, which is exposed to Ethena's USDe and sUSDe, Chaos Labs closely monitors funding rate dynamics. Based on the most recent collateral backing USDe, we can confirm that, following an initial drop in funding and a minor drawdown in the reserve fund, Ethena has become profitable overall during the recent market volatility and associated negative ETH funding rates.

Negative funding rates on USDe's 37% of collateral linked to ETH have been offset by on-average positive BTC funding rates on the 46% of collateral linked to BTC and staking rewards from ETH LSTs.

ETH

BTC

Aave

With USDe and sUSDe currently in isolation mode and highly correlated with stablecoins, we effectively reduce the volatility of underlying positions. Even if the market price of USDe deviates from the targeted \$1 value in the future, the impact on a position's health factor is minimal. Additionally, with a conservative Liquidation Threshold (LT) of 75%, there is a substantial buffer before bad debt starts to accrue, providing extra security against potential market price fluctuations of USDe.

We will continue to monitor the situation and report on any status changes.