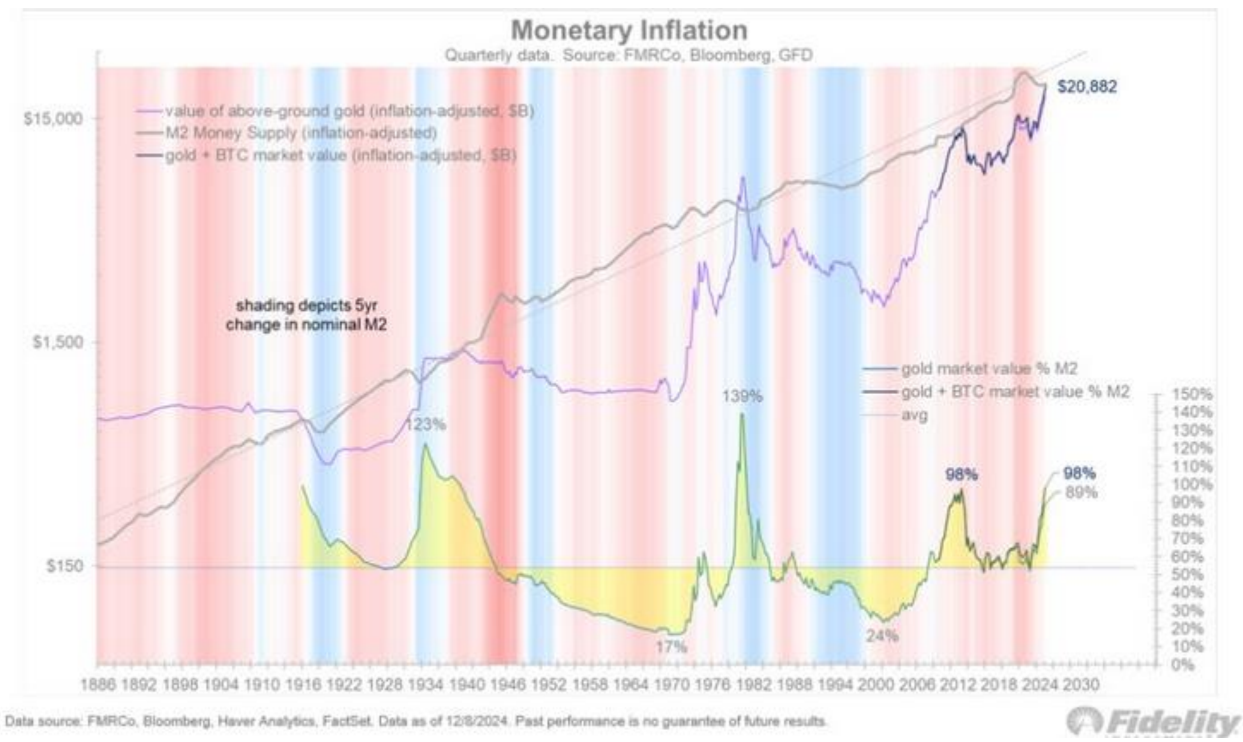
The Macro Economic Thesis

Satoshi Nakamoto released the Bitcoin whitepaper because of the monetary inflation of the Global Financial Crisis. That same force continues to drive adoption of bitcoin in a cyclical manner. We also use money printing, M2 growth, Fed stimulus and monetary stimulus to explain the condition. The chart below from Fidelity’s Director of Global Macro shows how gold over the years has reacted positively to monetary inflation and now gold+bitcoin are doing the same. It’s this dynamic that got me allocating to bitcoin, and I continue to see compelling drivers to stay in the asset for the coming decades.



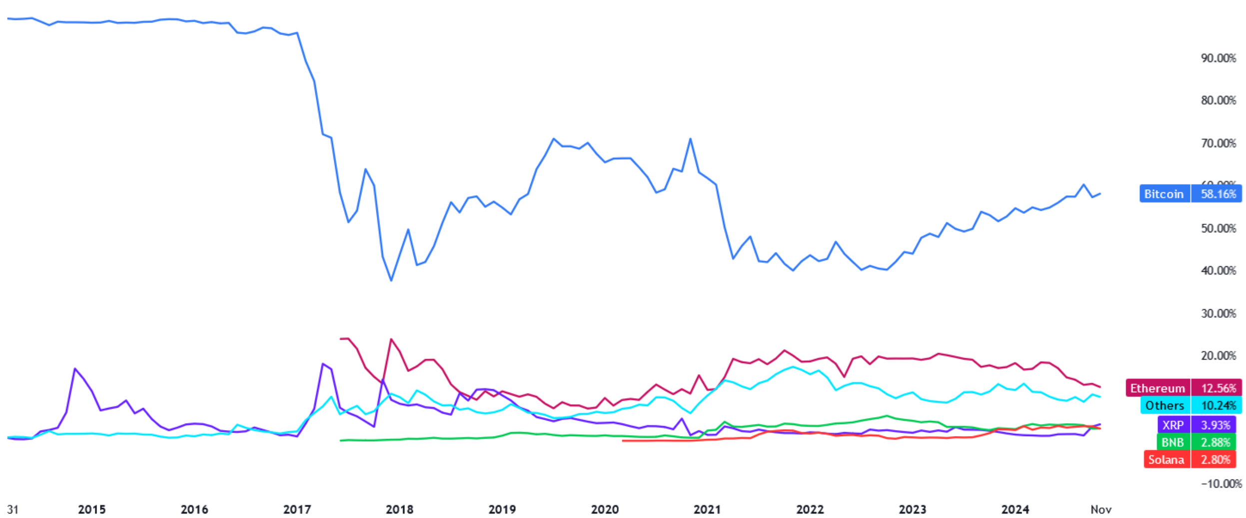
Source: [Jurrien Timmer]

The global debt load is too high for governments to service alongside rising healthcare and retirement benefits like social security. The path of least resistance is for today’s leaders to implement monetary stimulus to keep interest rates low and debt services manageable. Anyone that proposes cutting benefits or raising taxes will be voted out of office. In the US, both Democrats and Republicans now offer populist policies. That’s what gets you elected/reelected, and coming to/staying in power seems to be every politician’s primary goal. If you agree with this view, then the most likely outcome is that governments and central banks will print money to keep the current overindebted system going for as long as possible.

Regulatory Clarity

In the coming months, as the cycle matures, I anticipate the alt tokens outperforming bitcoin. Regulatory clarity, once the new administration comes into office, will be very important to the Defi protocols. Bitcoin, in contrast, was the only token above the regulatory fray as the SEC had declared it a commodity. Bitcoin dominance (bitcoin market cap as a % of total crypto market cap) has already started to drop, which is a sign of a maturing rally. In the past two bull markets, bitcoin dominance dropped to the low 40s in the final stages of the rally. Bitcoin dominance is currently at 58% and a drop in the coming months should underpin the fund outperformance vs. bitcoin. Actions by the Trump Administration will be crucial to realizing this view, which does bring an element of risk.

Bitcoin Dominance

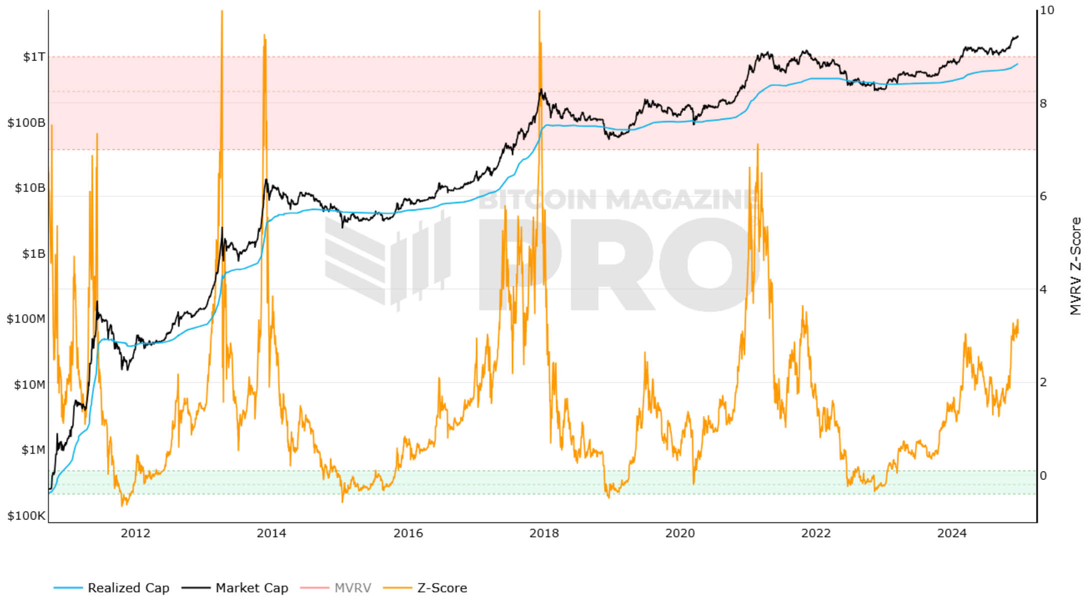


Source: [TradingView]

Bitcoin On-chain Metric

Instead of cashflows, the bitcoin protocol offers great insights into the behavior of owners. Here are some of the metrics and the cyclical patterns that I find useful. Cycles rhyme, but do not repeat, is the working thesis.

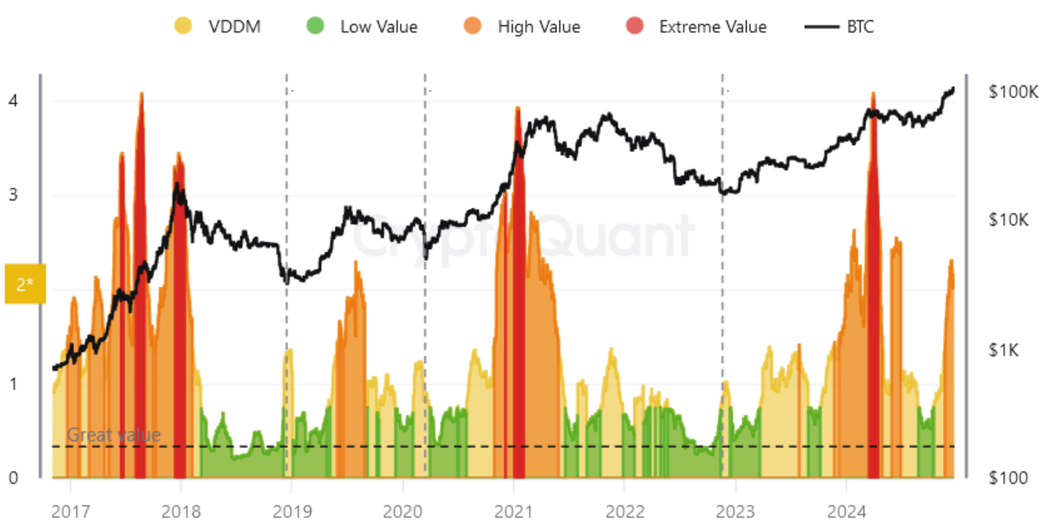
Bitcoin MVRV Z-Score



Source: [Bitcoin Magazine]()

Notice the cyclical pattern in this chart, which is a ratio of market cap (MV) of bitcoin over the cost basis (RV= realized value) of all bitcoin tokens.

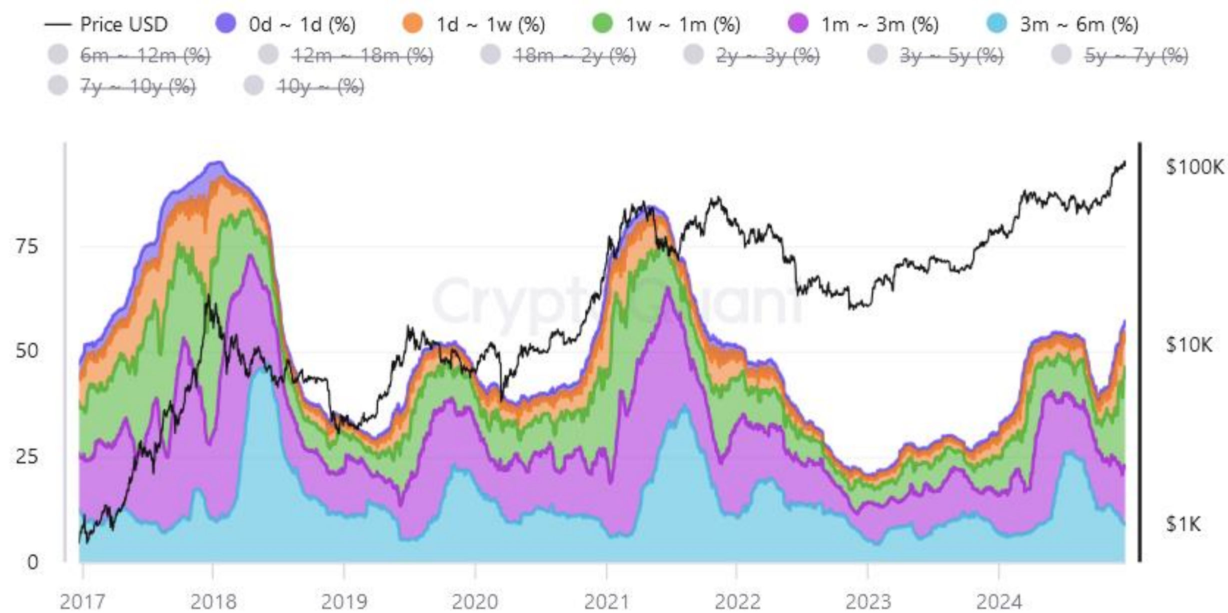
Value Day Destroyed (VDD) Multiple



Source: CryptoQuant

There's plenty of art in using these metrics. For example, in the 2018 cycle the VDD peaked when bitcoin was ~ $4,000 and the price ultimately peaked above $18,000. Investors would have left meaningful value on the table if they mechanically followed just the VDD signal. In 2024, withdrawals from Grayscale's GBTC, return of Mt Gox tokens and the US government moving tokens confiscated from Silk Road have impacted this metric and the following charts as well.

Realized Cap – Age Band (% younger than 6 months)

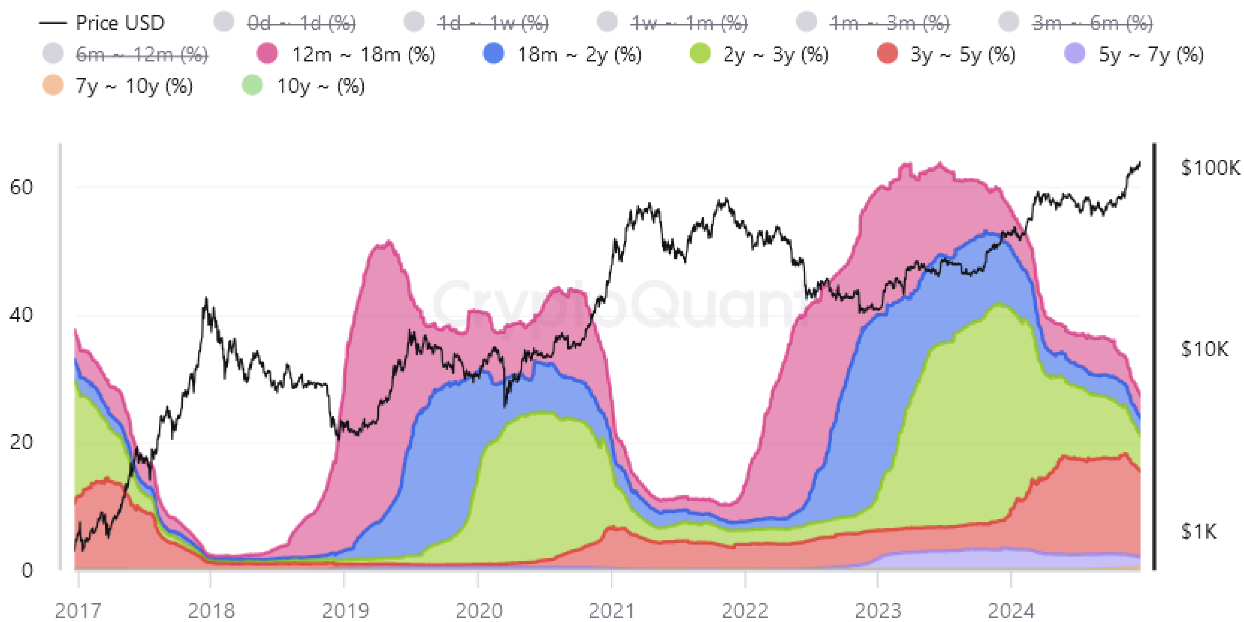


Source: CryptoQuant

Realized cap is the value of all bitcoin at the price it was last moved (assumed sold). Think of it as the cost basis of all outstanding bitcoin. This is not a metric that's available in traditional markets like stocks or bonds. We can see how market peaks have correlated with the younger tokens pushing above ~ 75% of realized cap. The chart above isolates the percentage (left axis) of coins that have moved in the past 6 months. This relationship makes intuitive sense: As more longer-term holders (typically with a lower cost) sell to newer buyers, the cycle peaks.

The next chart shows how older tokens become a smaller % of realized cap as the cycle matures, which is the inverse of the chart above.

Realized Cap – Age bands (% older than 1 year)



Source: CryptoQuant

Finally, I believe blockchains offer significant boosts to future productivity, but with serious implications for society. Blockchains can automate many financial services that require large trust institutions like banks today. This is the thesis behind the Defi tokens that the fund owns. Regulatory easing will be required to unleash this productivity, therefore policies under the Trump administration will be an important marker. The policy environment is unlikely to be worse than the adversarial stance of the Biden era. The marginal change is very likely to be positive, but the productivity uplift is a multi-decade view, not something that will happen over a few years.

If you made it all the way to the end, thank you for your attention. As always, I am available to answer any additional questions.

Sincerely

Asi de Silva

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