

Digital Asset Market - May 2023 Review

by Bilal Ahmed Mir, Founder & CEO of Carter Capital

Overview:

The main factor determining the directionality of Digital Asset markets, as well as equity & fixed income markets, remains interest rates & liquidity.

As indicated in the table to the right, 2 – 10 year sovereign bond yields remain inverted in Australia, France, Germany, Netherlands, Sweden, U.K. & most importantly, U.S.

This indicates that market participants expect interest rates remain elevated in the near term, however higher borrowing cost will eventually hurt the economy & markets, forcing the Fed & other leading central banks to later ease monetary policy in the long term.

History suggests that an inverted yield curves are a great predictor for economic weakness. Since WWII, every economic recession has been preceded by a yield curve inversion. There is some debate as to whether the U.S. & other leading economies have/are/will be in economic recession, however what is clear is that there has been a softening of economic conditions & financial markets.

As the cost of borrowing increases, it naturally follows that there is less liquidity flowing through the economy (due to higher interest cost) & less leverage in financial markets (due to higher “risk-free rate”).

However, as global central banks begin to signal a pause in interest rate increases & sovereign bond yields begin to stabilise, global liquidity conditions are beginning to change.

COUPON (%)	COUNTRY/MATURITY, IN YEARS	LATEST
3.250	Australia 2	3.659 ▲
2.250	5	3.440 ▲
4.500	10	3.651 ▲
0.800	Belgium 2	2.856 ▲
0.800	5	2.645 ▲
3.000	10	2.987 ▲
0.000	France 2	2.989 ▲
0.750	5	2.671 ▲
3.000	10	2.855 ▲
2.800	Germany 2	2.812 ▲
2.200	5	2.346 ▲
2.300	10	2.316 ▲
3.400	Italy 2	3.407
3.400	5	3.469 ▼
4.350	10	4.063 ▲
0.005	Japan 2	-0.071 ▼
0.100	5	0.074 ▼
0.500	10	0.416 ▼
0.250	Netherlands 2	2.784 ▲
0.750	5	2.553 ▲
2.500	10	2.676 ▲
2.875	Portugal 2	2.690 ▲
2.125	5	2.630 ▲
1.650	10	2.993 ▲
0.000	Spain 2	3.082 ▲
0.000	5	2.959 ▲
3.150	10	3.308
2.500	Sweden 2	3.030 ▲
0.750	5	2.467 ▲
1.750	10	2.326 ▲
0.625	U.K. 2	4.358 ▲
1.250	5	4.098 ▲
4.250	10	4.157 ▲
4.250	U.S. 2	4.501 ▲
3.625	5	3.840 ▲
3.375	10	3.691 ▲

Sources: Tullett Prebon, Tradeweb ICE U.S. Treasury Close



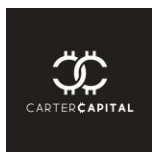
The chart above indicates the weekly change in G5 (France, Germany, Japan, U.K., & U.S.) central bank balance sheets, calculated on a year on year basis. This chart signals the direct & indirect QE activities of G5 central banks, hence the dramatic expansion during the Covid era & tightening thereafter as inflation took hold. There is now a clear reversal, with global liquidity beginning to increase.

This is bullish for Digital Assets.



The chart above overlays year on year Bitcoin price change with changes in global M2. There is a very strong correlation between Bitcoin/Digital Assets in general & global M2, considering Digital Assets is a high beta asset class, there are greater proportional moves to the upside & downside when compared to NASDAQ for example.

The rise in global M2 has been predominantly led by China, which is in accordance with elevated levels of Digital Asset activity there & in Hong Kong. As western economies begin to contribute to global M2 increase, Digital Asset markets are highly likely to benefit as a result.

**Market Benchmarks:**

May 2023 performance of key market benchmarks below

S&P 500	+ 1.8%
NASDAQ	+ 5.9%
STOXX Europe 600	- 2.2%
Bitcoin	-7.0%
Ethereum	+ 0.3%

The NASDAQ was buoyed by impressive earnings performance of NVIDIA & other large-cap tech companies building products and services in relation to ongoing rapid development of AI technology. The S&P 500 lagged as other sectors of the U.S. economy combat the higher interest rate/lower liquidity environment. Much of the S&P 500 performance is derived from 7 tech companies, Apple Inc., Alphabet Inc., Meta Platforms Inc. Microsoft Corp., NVIDIA Corp., Amazon.com Inc. and Tesla Inc. These 7 stocks comprise 26% weighting within the S&P 500, removing them from the index would equate to the “S&P 493” being down -1% YTD 2023.

Key Digital Asset benchmarks did not perform as strongly as the aforementioned equity indices, mostly due to technical pullbacks following strong outperformance YTD.

Financial markets are inherently forward-looking structures. Financial market participants have perceived that the current monetary environment of elevated interest rates is wreaking havoc amongst poorly risk-managed financial institutions, thus participants have perceived that it is highly likely that interest rates will begin to be reduced in the short to medium term. This, along with the resumption of liquidity injections by leading global central banks have given the impetus to financial market participants to adopt a risk-on approach.

In conclusion, Carter Capital does expect leading global central banks to begin stabilising & decreasing interest rates in the coming months. This easing of monetary conditions has historically been bullish for Digital Assets, Carter Capital is well positioned to benefit from such a scenario.

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To request information on how to safely invest in Digital Assets with Carter Capital